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**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**  
(A Proprietary Component Unit of the City of New Orleans)

Financial Statements and Supplemental Schedules

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1/9/08

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KPMG LLP  
Suite 2900  
909 Poydras Street  
New Orleans, LA 70112

## **Independent Auditors' Report**

New Orleans Aviation Board  
Louis Armstrong New Orleans International Airport:

We have audited the accompanying financial statements of the Louis Armstrong New Orleans International Airport (the Airport), a proprietary component unit of the City of New Orleans, as of December 31, 2006 and 2005 and for the years then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louis Armstrong New Orleans International Airport as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Management Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Supplemental schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules 1 and 2 have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. Schedule 3 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007, on our consideration of the Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

New Orleans, Louisiana  
December 14, 2007

## **LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**

(A Component Unit of the City of New Orleans)

### **Management's Discussion and Analysis**

December 31, 2006 and 2005

(Unaudited)

This narrative discussion and analysis is intended to serve as an introduction to the Louis Armstrong New Orleans International Airport's basic financial statements for the fiscal years ended December 31, 2006 and 2005, with selected comparative information for the fiscal year ended December 31, 2004. The information presented here should be read in conjunction with the financial statements, footnotes, and supplementary information found in this report.

#### **Overview of the Financial Statements**

The Louis Armstrong New Orleans International Airport (the Airport) is structured as an enterprise fund. The financial statements are prepared on the accrual basis of accounting. Therefore, revenues are recognized when earned and expenses are recognized when incurred. Capital assets are capitalized and depreciated, except for land, over their useful lives. See the notes to the financial statements for a summary of the Airport's significant accounting policies.

Following this Management Discussion and Analysis (MD&A) are the basic financial statements and supplemental schedules of the Airport. This information taken collectively is designed to provide readers with an understanding of the Airport's finances.

The balance sheets present information on all of the Airport's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Airport's financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the Airport's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

The principal operating revenues of the Airport are from sources such as airlines, concessions, rental cars, and parking. Investment income, passenger facility charges, federal grants, and other revenues not related to the operations of the Airport are nonoperating revenues. Operating expenses include the cost of airport and related facilities maintenance, administrative expenses, and depreciation on capital assets. Interest expense and financing costs are nonoperating expenses.

The statements of cash flows relate to the flows of cash and cash equivalents. Consequently, only transactions that affect the Airport's cash accounts are recorded in these statements. A reconciliation is a part of these statements to assist in the understanding of the difference between cash flows from operating activities and operating loss.

#### **Financial Highlights**

On August 29, 2005, parts of the Louisiana and Mississippi Gulf Coast area were devastated by Hurricane Katrina. The City of New Orleans was particularly impacted as well as the Airport. As a result of the hurricane, there has been a significant financial impact on the Airport as can be seen on the following financial statements. The Airport incurred only minor damages to property and equipment, however, the biggest financial impact to the Airport was a result of the lack of operations due to the complete shutdown of the Airport. Following the

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hurricane, the normal activities at the Airport were discontinued until September 13, 2005 and remained at a reduced level for the remaining three and a half months of the year ending December 31, 2005. In response to the issues faced by the Airport, the New Orleans Aviation Board (the Board) has taken the following actions:

1. The Katrina Emergency Response Team (KERT) was created to monitor the temporary and permanent repairs to Airport facilities. The rehabilitation program is currently estimated to cost approximately \$27.5 million and will be funded by proceeds from Federal Emergency Management Assistance (FEMA) grants, Federal Aviation Administration grants, and insurance proceeds. Permanent construction is anticipated to be completed by February 2008. The Airport incurred \$803,500 of Katrina-related expenses as of December 31, 2005. The majority of these expenses related to temporary housing, janitorial clean-up, food supplies, and electric utilities. As of December 31, 2005, FEMA had reimbursed the Airport for \$795,096 of the expenses incurred. In 2006, an additional \$84,664 was received from FEMA for operating expenses incurred in 2005. In 2006 FEMA also paid \$581,926 for damages to buildings and equipment. The total paid by FEMA is \$1,461,686. The Airport sustained minor damages to its capital assets and as a result did not have to apply the provisions of Governmental Accounting Standards Board No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries (GASB Statement No. 42)*. In 2005, Continental Casualty (CNA) paid the Airport \$500,000 of insurance proceeds which represent advances on business interruption claims and are included in operating revenues. The Airport also received a \$1,000,000 advance on the property damage from the CNA insurance coverage. In 2006, an additional \$7,124,589 was received from CNA based on initial cost estimates. During June 2007, CNA remitted \$2,365,813 for Katrina related damages. On February 2, 2006, the Airport was struck by a tornado resulting in damages to several aircraft loading bridges, a portion of the Airport's roof and other damages for a damage estimate of \$982,000. To date, the Airport has received \$732,321 of insurance reimbursement related to the tornado.
2. In November 2005, the Board approved a financial plan which is intended to provide a roadmap for how the Airport will manage its financial operations during the recovery from the impact of Hurricane Katrina. It included cash flow projections based on certain growth scenarios related to expenses, debt obligations, passenger growth projections, and nonairline revenues. The plan discusses meeting its operating needs by utilizing available cash balances, federal borrowings and grants, possible debt restructuring, and a working capital credit facility. The Board was authorized to receive up to a maximum of \$28,000,000 from the FEMA Community Development Loan Program. On June 15, 2006, the Airport received an \$8,112,103 Community Development Loan (CDL) from FEMA with an interest rate of 2.93% for a period of 60 months. On August 25, 2006, the Airport received an additional \$2,187,816 CDL from FEMA with an interest rate of 3.06% for a period of 60 months. On October 4, 2006, the Airport received another \$582,722 CDL from FEMA with an interest rate of 2.93% for a period of 60 months. In addition, the Board received approval for participation in the Gulf Tax Credit Bonds Program (Go Zone Tax Credit Bonds) sponsored by the State of Louisiana in an amount not exceeding \$36,000,000. The Airport was approved for \$35,371,990 for an interest free period of 60 months. On August 1, 2006, Hancock Bank as escrow trustee for the State of Louisiana with respect to its Go Zone Tax Credit Bonds Program transferred to the Trustee the amount of \$10,242,550 to be used to pay the August 2, 2006 debt service on the Bonds and related interest rate swap payments. The Hancock Bank transferred an additional \$3,008,422 in debt service between August 2006 and December 2006 which increased the total loan to \$13,250,972 as of

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December 31, 2006. The Trustee continues to be responsible for making all debt service payments on the bonds. The Hancock Bank will continue to make the appropriate debt service transfers to the Trustee until the balance of the approval is reached, which will be in July 2008. In August 2007, the Airport resumed transferring to the Trustee the principal portion of the debt service for the 1993B, 1993C, 1995A, and 1997A Refunding Bonds. In October 2007, the Airport resumed transferring to the Trustee the principal portion of the debt service for the 1997B-2 Revenue Bonds. The interest portion of the debt service will continue to be transferred by Hancock Bank to the Trustee. The financial recovery plan will be updated periodically.

3. The Airport was in the process of negotiating a new Commercial Airline Lease with the airline transportation companies as the current lease had expired on December 31, 2004. The fees charged to the airline transportation companies for the period January 1, 2005 to June 30, 2005 were consistent with those of the expired Commercial Airline Lease. In July and August 2005, the draft lease agreement rates were implemented, while lease negotiations continued. Due to the drastic decrease in activity at the Airport, no fees were charged to the air carriers for the month of September 2005. In the aftermath of Hurricane Katrina, the Board determined that it was no longer feasible to continue to operate the Airport pursuant to the terms of the expired Commercial Airline Lease due to the reduced flight operations and enplanements. After consultation with the Air Transportation Companies operating at the Airport, the Board approved the Rate Resolution, which established a flat rate per enplaned passenger and a set landing fee per 1,000 pounds of gross maximum landed weight. The Board and the airline transportation companies determined that the level of rates, fees, and charges established by the resolution, while not initially self-sustaining, were deemed to be the highest that could be imposed under the present conditions to assure the continuation of air service for the region. The rates are subject to modifications as the conditions improve in the operations of the airlines. Pre-Katrina, the Airport had 162 daily departures to 42 cities with 20,676 average daily seats. As of December 2006, the service level was 110 daily departures to 31 cities with 12,962 average daily seats. In order to encourage additional air service, the Board has instituted an incentive plan that became effective January 1, 2007. As of October 2007, the service level is 126 daily departures to 37 cities with 14,701 average daily seats. Southwest Airlines has announced an additional 8 flights as of November 2007, which will bring the service level to 132 daily departures to 37 cities with 15,663 average daily seats.

The Rate Resolution was approved by the Board and the Airline Transportation Companies and became effective October 1, 2005, which set rates at \$8.00 per enplaned passenger and a landing fee of \$1.07 per 1,000 pounds of gross maximum landed weight. As a result of the reduced operating revenues, the Airport determined that it would be unable to meet the debt service coverage ratio of 125% as required under the bond indenture for the Refunding and Revenue Bonds. As a result, the Board adopted the Rollover Coverage Resolution as an amendment to the Rate Resolution, which allows the Airport to include a specific amount of rollover coverage as revenues in the calculation of the debt service coverage ratio for each of the three fiscal years ending December 31, 2005, 2006, and 2007. The bond indenture allows for rollover coverage to be included in the covenant calculation in accordance with the Commercial Airline Lease. The bond indenture defines the Commercial Airline Lease as the previously existing lease that expired on December 31, 2004 or "in the event there is at any time no such lease in existence than it shall include the resolution or other proceedings adopted by the Board prescribing the effective rates and

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charges for the services, commodities and facilities of the Airport System." The Airport's calculation of the Historical Debt Service Coverage Ratio, as presented in the Supplemental Schedule III to the financial statements, is 176% for the year ended December 31, 2006. The Airport is current on all debt service payments as required by the bonds and there has been no documented correspondence from the Bond Insurers or Bond Holders regarding noncompliance with the debt service coverage covenant.

4. The Board instituted a major cost reduction plan that included a lay off of approximately 50% of the employees. In addition other costs are being monitored to insure they are reasonable and necessary.
  - The assets of the Airport exceeded its liabilities at December 31, 2006 and 2005 by \$321,479,176 and \$329,791,194, respectively. Of these amounts, \$34,070,964 and \$28,780,518 may be used to meet the Airport's ongoing obligations to its passengers, tenants, and creditors.
  - The Airport's decrease in net assets was \$8,312,018 (3%) for fiscal year 2006 and an increase of \$4,986,534 (2%) for fiscal year 2005. The decrease in 2006 was due to a decrease in capital contributions received from the federal government to finance the cost of construction of airport facilities. In 2006, the Airport received \$6,042,248 and in 2005 received \$25,090,350 of capital contributions from the federal government.
  - The Airport's total debt increased by \$15,794,698 (8%) during the current fiscal year. The key factors in this increase were the addition of \$1,357,977 to the Drawdown Bond Facility, Series 2004A, the FEMA CDL for \$10,882,641 and the GO Zone Tax Credit Bonds for \$13,250,972 which were offset by the payment of principal in the amount of \$11,260,000 of the Refunding Bonds, Series 1993B-C, 1995A, and 1997A; 1997B Revenue Bonds; and the 1999 Revenue Refunding Bonds plus the amortization of loss on the advance refunding and discount on bonds in the amount of \$1,405,927.
  - Operating revenues decreased by \$1,573,396 (3%) over the prior year due primarily to the impact of Hurricane Katrina and the implementation of the Rate Resolution. This decrease occurred particularly in the area of airline landing fees which were down by \$10,498,608 (70%) and non airline airfield revenues in the amount of \$180,496. Terminal building revenue increased by \$8,900,255 (25%) primarily in the area of airline terminal building rentals in the amount of \$6,621,558 (37%). The increase in airline terminal rental revenue was a result of the implementation of the \$8.00 per enplaned passenger fee adopted in the Rates by Resolution as opposed to the cost per square foot of rental space charged under the previous airline lease. Non airline revenue increased by \$1,911,947 (10%), due primarily to an increase in parking fees.
  - Operating expenses before depreciation and amortization decreased by \$10,128,955 (21%) over the prior year. In 2005, the Airport expensed \$7,719,878 of costs in the Capital Improvement Fund, which did not reoccur in 2006 resulting in lower operating expenses in 2006. Additionally, the decrease was also due to lower salary and fringe benefits expenses in 2006 due to employee downsizing, and lower operating expenses overall. These decreases were offset by increases in a variety of other expense categories.



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- Capital contributions decreased \$19,048,102 (76%) this fiscal year due to the decrease in construction projects funded by federal grants, especially with the completion of the Rehabilitation of Runway 10/28 project.

#### **Financial Position**

Total assets increased by \$11,595,477 (2%) this year due primarily to an increase in current unrestricted assets. Current unrestricted assets increased by \$30,635,500 (76%) due to the reduction in operating expenses, the FEMA CDL for \$10,882,641, and the Go Zone Tax Credit Bonds for \$13,250,972.

Current liabilities are higher this fiscal year by \$4,682,797 (17%) due primarily to an Insurance Advance of \$5,528,305, an increase in Bonds Payable of \$570,000 (5%), and an increase of \$2,584,741 (797%) in Due to the City of New Orleans offset by a decrease of \$3,700,168 (38%) in Accounts Payable. Total noncurrent liabilities have increased by \$15,224,698 (8%) due to the 2004A Drawdown Bond Facility used to rehabilitate Runway 10/28, the FEMA CDL, and the Go Zone Tax Credit Bonds. This increase is offset by principal payments on the existing outstanding bonds in the amount of \$11,260,000.

The largest portion of the Airport's net assets, \$215,121,913 (67%) for 2006 and \$236,180,102 (71%) for 2005, represents its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The Airport uses these assets to provide services to its passengers, visitors, and tenants of the airport; consequently, these assets are not available for future spending. Although the Airport's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Airport's net assets, \$72,286,299 (23%) for 2006 and \$64,830,574 (20%) for 2005, represents resources that are subject to restrictions from contributors, bond resolutions, and state and federal regulations on how they may be used. The remaining balance of unrestricted net assets, \$34,070,964 (10%) for 2006 and \$28,780,518 (9%) for 2005, may be used to meet the Airport's ongoing obligations.

At the end of the current and previous fiscal year, the Airport reported positive balances in all three categories of net assets.

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**Management's Discussion and Analysis**

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**Summary of Net Assets (in thousands)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current and other assets	\$ 149,717	115,997	108,251
Net capital assets	<u>414,245</u>	<u>436,369</u>	<u>393,006</u>
Total assets	<u>\$ 563,962</u>	<u>552,366</u>	<u>501,257</u>
Liabilities:			
Current liabilities	\$ 32,107	27,424	19,675
Long-term liabilities	<u>210,375</u>	<u>195,151</u>	<u>156,777</u>
Total liabilities	<u>\$ 242,482</u>	<u>222,575</u>	<u>176,452</u>
Net assets:			
Invested in capital assets, net of debt	\$ 215,122	236,180	229,646
Restricted	72,286	64,831	59,328
Unrestricted	<u>34,071</u>	<u>28,780</u>	<u>35,831</u>
Total net assets	<u>\$ 321,479</u>	<u>329,791</u>	<u>324,805</u>

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(A Component Unit of the City of New Orleans)

**Management's Discussion and Analysis**

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**Airlines Rates and Charges**

The Airport had negotiated and executed an Airline Operating Agreement and Terminal Building Lease in effect with the airlines known collectively as the Signatory Airlines. This agreement established the rates and charges methodology for the Signatory Airlines and their affiliates each year. This agreement remained in effect until December 30, 2004. The Airport was in lease negotiations with the airlines during 2005 and had agreed in principle to the terms of the new lease. The rates for the first six months of 2005 were carried over from 2004. In July and August 2005, the draft lease agreement rates were implemented, while lease negotiations continued. Due to Hurricane Katrina, no fees were charged to the air carriers for the month of September 2005. The Board, with the agreement of the air carriers, implemented the Rate Resolution in October 2005 by charging \$8.00 per enplaned passenger and a landing fee of \$1.07 per 1,000 pounds of gross maximum landed weight. Landing fees for nonscheduled airlines are assessed 115% of the signatory rates in addition to a \$0.04 per gallon fuel flowage fee.

	<u>2006</u>	<u>10/05-12/05</u>	<u>7/05-8/05</u>	<u>1/05-6/05</u>	<u>2004</u>
Signatory Airlines rates and charges:					
Main terminal average square foot rate	\$ —	—	120.91	61.71	61.71
Concourses A and B average square foot rate	—	—	—	45.22	45.22
Concourses C and D average square foot rate	—	—	—	65.31	65.31
Rate Resolution (per enplaned passenger)	8.00	8.00	—	—	3.61
Landing fee-per 1,000 lbs. unit	1.07	1.07	1.07	3.61	—

September 2005 fees were suspended in aftermath of Hurricane Katrina.

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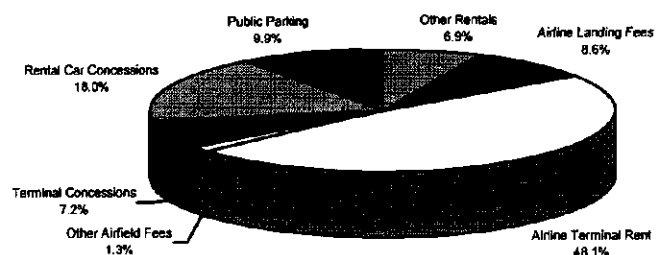
December 31, 2006 and 2005

(Unaudited)

**Revenues**

The following chart shows major sources and the percentage of operating revenues for the year ended December 31, 2006.

**Operating Revenue**



**Operating Revenues by Major Source (in thousands)**

	2006	2005	2004
Passenger and cargo airlines:			
Airline landing fee payments	\$ 4,406	14,905	25,574
Airline terminal rental payments	24,717	18,095	18,220
Ground rents	74	70	76
Other rentals and fees	610	723	705
<b>Total passenger and cargo airlines</b>	<b>29,807</b>	<b>33,793</b>	<b>44,575</b>
Non airline rentals:			
Concessions-terminal	3,666	3,962	4,763
Concessions-car rentals	9,261	7,924	8,134
Public parking	5,081	3,331	4,049
Other rentals and fees	3,538	3,916	4,853
Business interruption insurance income	—	500	—
<b>Total nonairline rentals</b>	<b>21,546</b>	<b>19,633</b>	<b>21,799</b>
<b>Total operating revenues</b>	<b>\$ 51,353</b>	<b>53,426</b>	<b>66,374</b>

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## Management's Discussion and Analysis

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### 2006 vs. 2005

The Rate Resolution implemented in 2005 remains in effect. Total air carrier revenue for 2006 decreased by \$3,985,341 (12%) over 2005 due to the fact that the new lower landing fee rates were in effect for the entire year. The landing fees decreased \$10,498,608 (70%) and were offset by increases in airline terminal rentals of \$6,621,753 (37%). The increase in airline terminal rental revenue was a result of the implementation of the \$8.00 per enplaned passenger fee adopted in the Rates by Resolution as opposed to the cost per square foot of rental space charged under the previous airline lease. Nonairline revenue increased \$1,911,947 (10%) primarily as a result of the parking revenues which were up \$1,749,018 (52%), and car rentals which increased \$1,336,451 (17%) and were offset by a decrease in various categories.

### 2005 vs. 2004

Due to airline lease negotiations, the Board and the signatory air carriers agreed to retain the rates and charges in effect for 2004. An agreement was reached in principle concerning the new lease and in July 2005 the new rates were implemented. The new rates were invoiced for July and August 2005. In the aftermath of Hurricane Katrina, the Board and the air carriers agreed to implement the Rate Resolution in lieu of a lease agreement with the signatory carriers. There was a decrease in landing fee payments of \$10,669,626 (42%) over the prior year as a result of the new rates and Hurricane Katrina. Airline terminal rentals decreased by 125,481 (1%). Nonairline revenue decreased by \$2,164,621 (10%).

Cost per enplaned passenger is a measure used by the airline industry to reflect the costs an airline pays to operate at an airport based upon the number of enplaned passengers for that airport. The cost per enplaned passenger decreased from \$9.02 in 2004 to \$8.46 in 2005 and increased to \$9.37 in 2006.

	2006	2005	2004
Cost per enplaned passenger:			
Airline revenues (in thousands)	\$ 29,123	33,000	43,794
Enplaned passengers (in thousands)	3,108	3,904	4,859
Cost per enplaned passenger	9.37	8.46	9.02

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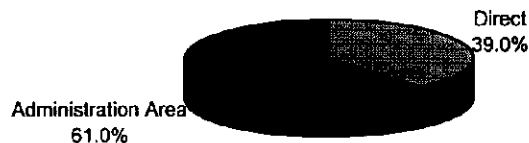
December 31, 2006 and 2005

(Unaudited)

### Expenses

The following chart shows major expense categories and the percentage of operating expenses for the year ended December 31, 2006.

#### Operating Expenses (Excluding Depreciation)



#### Operating Expenses before Depreciation (in thousands)

	2006	2005	2004
Direct (airfield, terminal building and area, hangars, leased sites, heliport)	\$ 14,691	17,282	21,100
Administration Area	22,701	30,239	23,776
	<u>\$ 37,392</u>	<u>47,521</u>	<u>44,876</u>

#### 2006 vs. 2005

The operating expenses before depreciation decreased by \$10,128,955 (21%) over the prior year due primarily to the decrease in the CIP costs that were determined to be expenses in 2005 in the amount of \$7,719,878. In addition, salaries and fringe benefits decreased by \$3,595,844 (35%) due to the layoff of the employees in the aftermath of Hurricane Katrina.

#### 2005 vs. 2004

The operating expenses before depreciation increased by \$2,644,708 (6%) over the prior year due mainly to costs in the Capital Improvement Program in the amount of \$7,719,878 that were determined to be expenses. This increase was offset by decreases in a variety of other expense categories.

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### Nonoperating Revenues, Net

#### 2006 vs. 2005

Nonoperating revenues, net consists primarily of passenger facility charge (PFC) revenue, investment income, FAA grant revenue, and interest expense. PFC revenue decreased 10% from \$15,069,767 in 2005 to \$13,598,301 in 2006 in the aftermath of Hurricane Katrina. Investment income increased by 81% from \$2,615,301 in 2005 compared to \$4,739,600 in 2006 due to an increase in investments and favorable interest rates. FAA grant revenue decreased 76% from \$25,090,350 in 2005 to \$6,042,248 in 2006 due primarily to the completion of the Rehabilitation of Runway 10/28 project. Interest expense and bond costs increased 14% from \$12,681,302 in 2005 to \$14,406,036 in 2006 as a result of increased financing costs and interest expense primarily on the 2004A Drawdown Bond Facility.

#### 2005 vs. 2004

Nonoperating revenues, net consists primarily of passenger facility charge (PFC) revenue, investment income, FAA grant revenue, and interest expense. PFC revenue decreased 23% from \$19,546,516 in 2004 to \$15,069,767 in 2005 in the aftermath of Hurricane Katrina. Investment income increased by 210% from \$843,304 in 2004 compared to \$2,615,301 in 2005 due to favorable interest rates. FAA grant revenue increased by 764% from \$2,904,757 in 2004 to \$25,090,350 in 2005 due primarily to grant revenue for the Rehabilitation of Runway 10/28 project. Interest expense and bond costs increased 2% from \$12,464,002 in 2004 to \$12,681,302 in 2005.

### Total Revenues and Expenses (in thousands)

The following table reflects the total revenues and expenses for the Airport (in thousands)

	2006	2005	2004
Total operating revenues	\$ 51,353	53,426	66,374
Total nonoperating revenues	18,338	17,685	20,389
Total revenues	\$ 69,691	71,111	86,763
Total operating expenses	\$ 68,298	75,939	73,498
Total nonoperating expenses	15,747	15,276	12,821
Total expenses	\$ 84,045	91,215	86,319

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(Unaudited)

**Summary of Changes in Net Assets (in thousands)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Summary of changes in net assets:			
Operating revenues	\$ 51,353	53,426	66,374
Operating expenses	<u>37,392</u>	<u>47,521</u>	<u>44,876</u>
Operating income before depreciation and amortization	<u>13,961</u>	<u>5,905</u>	<u>21,498</u>
Depreciation and amortization	<u>30,906</u>	<u>28,418</u>	<u>28,622</u>
Operating loss	<u>(16,945)</u>	<u>(22,513)</u>	<u>(7,124)</u>
Nonoperating revenues, net	<u>2,591</u>	<u>2,409</u>	<u>7,568</u>
(Loss) income before capital contributions and transfers	<u>(14,354)</u>	<u>(20,104)</u>	<u>444</u>
Capital contributions	<u>6,042</u>	<u>25,090</u>	<u>2,905</u>
Change in net assets	<u>\$ (8,312)</u>	<u>4,986</u>	<u>3,349</u>

Operating income before depreciation and amortization increased \$8,055,559 or (136%) over last fiscal year. Depreciation and amortization expense increased \$2,488,145 (9%). Capital contributions decreased by \$19,048,102 (76%) due primarily to the completion of the Rehabilitation of Runway 10/28 project. Capital Contributions are composed of federal grants, which are being received to fund construction and reconstruction of runways and roads at the Airport, and for the Sound Insulation Program. Capital grants were lower in 2006 due to the fact that various projects were in the planning and design stages.

**Capital Assets**

The Airport's investment in capital assets can be noted in the following table. The total increase for this fiscal year was less than 1% before accumulated depreciation and amortization. Major capital asset events occurring this fiscal year include the following:

- Land decreased by \$5,248,665 as a result of the swap of the noise property for development/noise property.
- Air rights increased primarily as a result of the swap of the noise property and the Residential Sound Insulation Program at a cost of \$6,205,162.
- Land Improvements increased primarily as a result of the final completion costs of the North Canal for \$1,028,000, the Flood Gate for \$527,831, and the Levy Lift in the amount of \$589,797.
- Buildings and Furnishings decreased by \$700,014 as a result of an adjustment to the cost of the West Terminal Expansion due to a legal settlement.



# LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

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- Construction in Progress increased due to the Security Operations Center for \$1,888,350, Aircraft Loading Bridges for \$350,394, Aircraft Rescue Fire Fighting (ARFF) for \$299,241, and the Strategic Development Plan for \$936,260 and was offset by the completion of various projects.

More detailed information on capital assets can be found in note 4 of the accompanying financial statements.

### Net Capital Assets (in thousands)

	2006	2005	2004
Land	\$ 84,252	89,501	89,517
Air rights	18,495	12,289	10,686
Land improvements	321,934	319,911	265,035
Buildings and furnishings	290,797	291,497	289,592
Equipment	6,353	6,268	6,000
Utilities	7,786	7,786	7,786
Heliport	3,067	3,067	3,067
Construction in process	18,744	12,683	24,483
Total capital assets	751,428	743,002	696,166
Less accumulated depreciation and amortization	337,183	306,634	303,160
Net capital assets	\$ 414,245	436,368	393,006

### Debt Activity

At the end of the current fiscal year, the Airport had total debt outstanding of \$222,205,372. The majority of the Airport's debt represents bonds secured solely by operating revenue. The remainder represents bonds payable from PFC Revenue.

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**Outstanding Debt (in thousands)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Bonds:			
Refunding Bonds 1993B – C, 1995 and 97A	\$ 122,840	132,440	141,460
Revenue Bonds 1997B	11,855	12,110	12,345
Revenue Refunding Bonds 1999 (PFC)	27,220	28,625	29,960
Drawdown Bond Facility 2004A	49,585	48,228	—
Unamortized bond discount	(414)	(446)	(477)
Unamortized loss on advanced refunding	(13,172)	(14,546)	(15,921)
Loans payable:			
FEMA	10,883	—	—
Go Zone Tax Credit Bonds	13,251	—	—
Interest payable:			
FEMA	157	—	—
	<u>\$ 222,205</u>	<u>206,411</u>	<u>167,367</u>

The Airport's total debt increased \$15,794,698 (8%) during the current fiscal year due to the 2004A Drawdown Bond Facility for the Rehabilitation of Runway 10/28 project for \$1,357,977, the FEMA CDL for \$10,882,641, and the Go Zone Tax Credit Bonds for \$13,250,972. The total was decreased by the maturity of \$11,260,000 of principal payments netted against the amortization of a bond discount and loss on advance refunding of \$1,405,927.

More detailed information on long-term debt can be found in note 5 of the accompanying financial statements.

**Debt Service Coverage**

Airport revenue bond covenants require that revenues available to pay debt service, as defined in the bond resolution, are 125% or greater than the debt service on the airport Refunding Bonds Series 1993B, 1993C, 1995A, and 1997A and the Revenue Bonds Series 1997B-1 and 1997B-2. The bond resolution for the Revenue Refunding Bonds Series 1999A-1 and 1999A-2, PFC Projects has a remaining ratio requirement of 105% or greater obtained by dividing the available amount by the cumulative debt amount. Coverage ratios for the past three years are shown in the following table.

The Board approved the Rate Resolution in November 2005, which significantly reduced the fees charged to the air transportation companies. As a result of the drastic reductions in flight operations and enplanements resulting from Hurricane Katrina, it was not feasible to continue to operate the Airport pursuant to a residual financial agreement. As a result of the reduced operating revenues, the Airport would not be able to meet the debt service coverage ratio of 125% as required under the General Revenue Bond Trust Indenture. In November 2006, the Board approved the Rollover Coverage Resolution, which provides for \$9,000,000 of coverage in 2005, \$15,000,000 in 2006, and \$13,000,000 in 2007. These amounts were determined by the Board through review of the actual 2005 covenant calculation and projected 2006 and 2007 covenant calculations in order for the Airport

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to specifically comply with the 125% debt service covenant in each of the three years. On November 30, 2006, the Airport completed three wire transfers, in accordance with the Rollover Coverage Resolution, in the amounts of \$9,000,000, \$15,000,000, and \$13,000,000 from the Airport Operating Account Fund into the Bank of New York (Trustee) 2005, 2006, and 2007 Rollover Accounts. The 2005 and 2006 funds were required to remain in the respective accounts for one business day and then were wired back to the Airport Operating Fund to be used to pay operation and maintenance expenses of the Airport. As a result of the rollover coverage, the Airport is in compliance with the debt service coverage ratio at December 31, 2006 and December 31, 2005.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Refunding Bonds and Revenue Bonds	176%	129%	130%
Revenue Refunding Bonds	107	124	124

### Airport Activities and Highlights

Passenger totals for 2006 decreased by 1,556,728 (20%) over 2005 due to the continuing impact of Hurricane Katrina. Since the Airport resumed air service in September 2005, air carrier operations have continued to increase as flights and destinations have been added. Prior to Hurricane Katrina the Airport had 162 daily flights to 42 cities with 20,676 average daily seats. On December 31, 2005, the Airport had 56 flights to 21 cities with 6,769 average daily seats. By December 31, 2006, the Airport had 110 flights to 31 cities with 12,962 average daily seats. As of October 2007, the Airport has 126 flights to 37 cities with 14,701 average daily seats. Southwest Airlines has announced an additional 8 flights as of November 2007 which will bring the service level to 132 daily departures to 37 cities with 15,663 average daily seats. The aircraft landed weight decreased by less than 1% in 2004, decreased by 22% in 2005 and decreased by 26% in 2006.

The Airport is continuing a program to rehabilitate aging infrastructure to meet current demands. Work has been completed on the Rehabilitation of Runway 10/28 project, and is ongoing on the Security Operations Center. In addition, the Airport is in the design stage on two projects: Aircraft Loading Bridges and Terminal Improvements.

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**

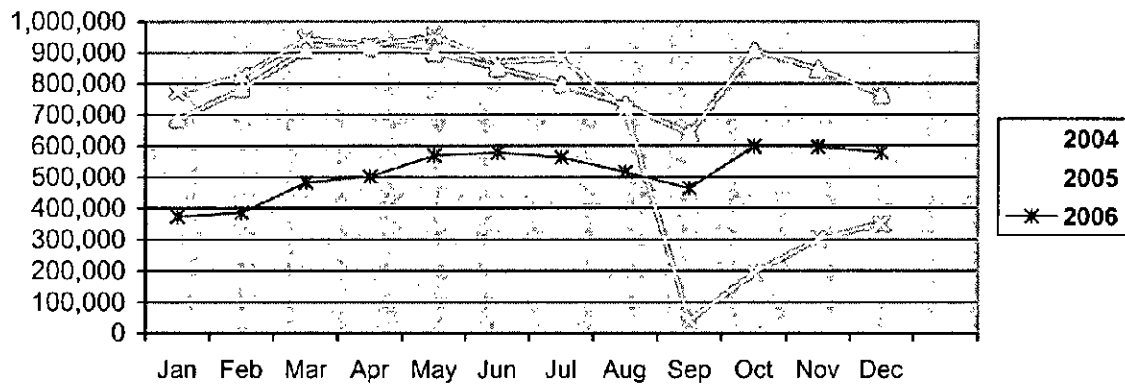
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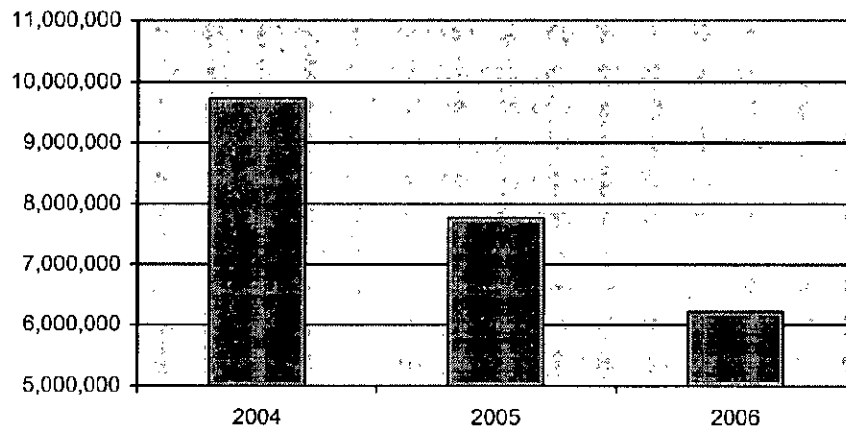
December 31, 2006 and 2005

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**Total Passengers**



**Total Passengers**



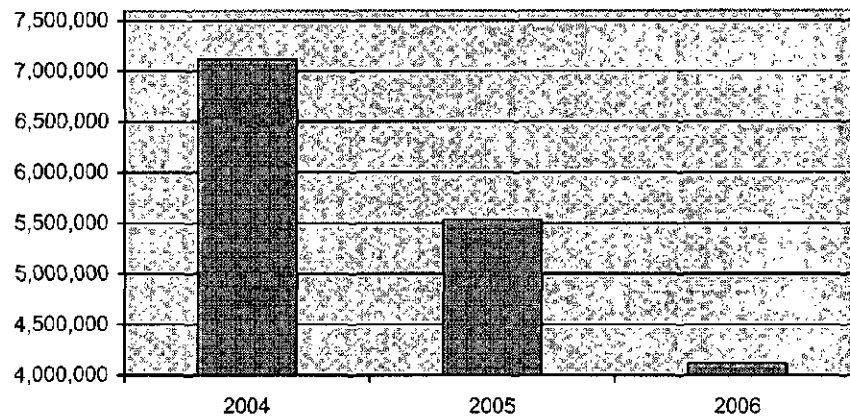
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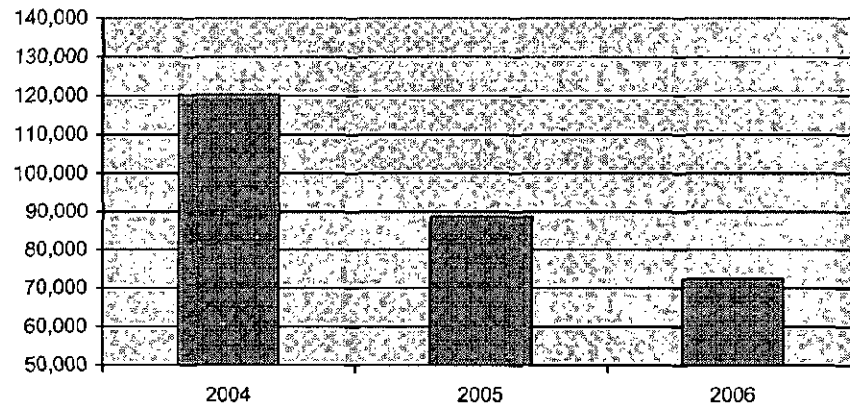
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**Landed Weight**



**Passenger Flight Operations**



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Selected statistical information about total passengers, aircraft landed weight, and air carrier operations for the past three years are presented in the table below.

<b>Fiscal year</b>	<b>Total passengers</b>	<b>Aircraft landed weight (1,000 pound units)</b>	<b>Air carrier operations</b>
2004	9,733,179	7,116,188	120,283
2005	7,775,147	5,531,834	88,628
2006	6,218,419	4,117,683	72,338

**Requests for Information**

This financial report is designed to provide a general overview of the Airport's finances. Questions concerning any of the information should be addressed to the Deputy Director of Finance and Administration, Louis Armstrong New Orleans International Airport, Post Office Box 20007, New Orleans, Louisiana 70141.

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**  
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Balance Sheets

December 31, 2006 and 2005

Assets	2006	2005
Current assets:		
Unrestricted assets:		
Cash (note 2)	\$ 3,198,737	8,076,802
Accounts receivable, less allowance for doubtful accounts of \$4,894,433 (\$3,010,940 in 2005)	9,099,474	10,149,597
Investments (note 2)	56,227,550	21,317,599
Interest receivable	275,497	214,225
Inventory of materials and supplies	80,740	120,319
Prepaid expenses and deposits	596,443	556,276
Due from City of New Orleans	1,669,089	77,212
Total unrestricted assets	<u>71,147,530</u>	<u>40,512,030</u>
Restricted assets (notes 2, 3, and 5):		
Cash	275,174	214,939
Investments	11,233,997	15,725,426
Passenger facility charges receivable	2,055,365	1,253,380
Capital grant receivable	709,671	918,602
Total restricted assets	<u>14,274,207</u>	<u>18,112,347</u>
Total current assets	<u>85,421,737</u>	<u>58,624,377</u>
Noncurrent assets:		
Long-term investments (note 2):		
Investments, unrestricted	158,837	430,550
Investments, restricted	61,196,913	53,721,973
Total long-term investments	<u>61,355,750</u>	<u>54,152,523</u>
Capital assets (note 4):		
Capital assets not being depreciated	102,996,077	102,183,947
Capital assets being depreciated	648,431,834	640,818,543
Less accumulated depreciation	<u>(337,183,213)</u>	<u>(306,633,677)</u>
Total capital assets, net	<u>414,244,698</u>	<u>436,368,813</u>
Prepaid insurance on revenue bonds, less accumulated amortization of \$977,114 (\$892,644 in 2005)	868,745	953,215
Deferred cost of bond issuance, less accumulated amortization of \$1,866,867 (\$1,670,342 in 2005)	<u>2,070,738</u>	<u>2,267,263</u>
Total noncurrent assets	<u>478,539,931</u>	<u>493,741,814</u>
Total assets	<u>\$ 563,961,668</u>	<u>552,366,191</u>

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**  
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Balance Sheets

December 31, 2006 and 2005

Liabilities and Net Assets	2006	2005
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	\$ 6,134,746	6,904,029
Due to City of New Orleans	2,908,959	324,218
Accrued salaries and other compensation	2,111,104	2,002,930
Capital projects payable	1,149,799	80,800
Total current liabilities (payable from unrestricted assets)	<u>12,304,608</u>	<u>9,311,977</u>
Payable from restricted assets:		
Accounts payable	—	2,930,885
Accrued bond interest payable	1,265,283	930,421
Bonds payable, current portion (note 5)	11,830,000	11,260,000
Capital projects payable	1,178,924	2,991,040
Accrued expenses	5,528,305	—
Total current liabilities (payable from restricted assets)	<u>19,802,512</u>	<u>18,112,346</u>
Total current liabilities	<u>32,107,120</u>	<u>27,424,323</u>
Noncurrent liabilities:		
Bonds payable, less current portion, unamortized loss on advance refunding and unamortized discount (note 5)	186,084,578	195,150,674
Loans payable	24,133,613	—
Loan interest payable	157,181	—
Total noncurrent liabilities	<u>210,375,372</u>	<u>195,150,674</u>
Total liabilities	<u>242,482,492</u>	<u>222,574,997</u>
Net assets:		
Invested in capital assets, net of related debt	215,121,913	236,180,102
Restricted for:		
Debt service	10,006,177	13,332,098
Capital acquisition	41,010,194	43,578,581
Operating reserve	21,269,928	7,919,895
Unrestricted	34,070,964	28,780,518
Total net assets	<u>321,479,176</u>	<u>329,791,194</u>
Total liabilities and net assets	<u>\$ 563,961,668</u>	<u>552,366,191</u>

See accompanying notes to financial statements.



**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**  
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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues (note 8):		
Landing and airfield fees	\$ 5,310,633	15,989,737
Terminal building	43,889,655	34,989,400
Ground transportation and other areas	2,152,426	1,946,973
Total operating revenues	<u>51,352,714</u>	<u>52,926,110</u>
Operating expenses:		
Direct	14,698,302	17,273,495
Depreciation	30,906,008	28,417,863
Administrative	22,701,535	30,239,328
Hurricane Katrina expense (net)	(7,587)	8,382
Total operating expenses	<u>68,298,258</u>	<u>75,939,068</u>
Recoveries from business interruption insurance	<u>—</u>	<u>500,000</u>
Operating loss	<u>(16,945,544)</u>	<u>(22,512,958)</u>
Nonoperating revenues (expenses):		
Investment income	4,739,600	2,615,301
Interest expense	(14,406,036)	(12,681,302)
Passenger facility charges	13,598,301	15,069,767
Other, net	(1,340,587)	(2,594,624)
Total nonoperating revenues, net	<u>2,591,278</u>	<u>2,409,142</u>
Loss before capital contributions	<u>(14,354,266)</u>	<u>(20,103,816)</u>
Capital contributions (note 6)	<u>6,042,248</u>	<u>25,090,350</u>
Change in net assets	<u>(8,312,018)</u>	<u>4,986,534</u>
Total net assets, beginning of year	<u>329,791,194</u>	<u>324,804,660</u>
Total net assets, end of year	<u>\$ 321,479,176</u>	<u>329,791,194</u>

See accompanying notes to financial statements.

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**  
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Statements of Cash Flows

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 50,519,344	50,115,448
Cash paid to suppliers for goods and services	(31,975,949)	(31,171,244)
Cash paid to employees and on behalf of employees for services	(6,132,526)	(8,575,785)
Other receipts	220,694	513,287
Net cash provided by operating activities	<u>12,631,563</u>	<u>10,881,706</u>
Cash flow from noncapital financing activities:		
Sales tax receipts	586,513	587,424
Insurance proceeds receipts	7,856,909	—
Projects paid from insurance receipts	(2,328,604)	—
Rental receipts related to hurricane emergency response	—	151,630
Net cash provided by noncapital financing activities	<u>6,114,818</u>	<u>739,054</u>
Cash flows from capital and related financing activities:		
Passenger facility charges collected	12,796,316	16,544,200
Acquisition and construction of capital assets	(10,325,009)	(71,929,045)
Capital grants received	6,251,179	25,055,450
Principal paid on revenue bond maturities	(11,260,000)	(10,590,000)
Issuance of revenue bonds	1,357,977	48,227,412
Proceeds from Loans Payable	24,133,613	—
Interest paid on bonds and loans	(13,574,866)	(13,081,867)
Cost of bond issuance and insurance	—	237,503
Net cash provided by (used in) capital and related financing activities	<u>9,379,210</u>	<u>(5,536,347)</u>
Cash flows from investing activities:		
Sales of investments	193,432,839	133,186,218
Purchases of investments	(231,074,701)	(143,911,516)
Interest and dividends on investments	4,698,441	2,580,790
Net cash used in capital and related financing activities	<u>(32,943,421)</u>	<u>(8,144,508)</u>
Net decrease in cash and cash equivalents	<u>(4,817,830)</u>	<u>(2,060,095)</u>
Cash and cash equivalents at beginning of year	<u>8,291,741</u>	<u>10,351,836</u>
Cash and cash equivalents at end of year (note 2)	<u>\$ 3,473,911</u>	<u>8,291,741</u>
Noncash investing activities:		
Decrease in investments due to change in fair value	\$ (20,113)	(49,115)
Noncash financing activities:		
Amortization of bond-related costs	\$ (1,686,922)	(1,686,922)
Loss on disposal of assets	(800,000)	(1,787,328)

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## Statements of Cash Flows

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (16,945,544)	(22,512,958)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	30,906,008	28,417,863
Increase in allowance for doubtful accounts	1,883,493	991,962
Other	220,694	13,286
Changes in assets and liabilities:		
Accounts receivable	(833,369)	(2,810,660)
Inventory of materials and supplies	39,579	8,930
Prepaid expenses and deposits	(40,167)	873,599
Accounts payable	(3,700,169)	6,032,571
Accrued salaries and other compensation	108,174	(132,887)
Due to City of New Orleans	992,864	—
Total adjustments	<u>29,577,107</u>	<u>33,394,664</u>
Net cash provided by operating activities	<u>\$ 12,631,563</u>	<u>10,881,706</u>

See accompanying notes to financial statements.

## **LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**

(A Component Unit of the City of New Orleans)

Notes to Financial Statements

December 31, 2006 and 2005

### **(1) Summary of Significant Accounting Policies**

#### **(a) Organization**

The Louis Armstrong New Orleans International Airport (the Airport) is a proprietary component unit of the City of New Orleans, Louisiana. The New Orleans Aviation Board (the Board) was established in 1943 to provide for the operation and maintenance of the Airport. The Board consists of nine members appointed by the Mayor of the City of New Orleans with approval of the New Orleans City Council. The City of Kenner, Louisiana and the Parish of St. Charles, Louisiana each have input as to the selection of one board member.

The accompanying policies of the Airport conform to accounting principles generally accepted in the United States of America as applicable to proprietary component units of governmental entities.

#### **(b) Basis of Presentation**

Proprietary fund accounting is used for the Airport's ongoing operations and activities which are similar to those often found in the private sector. Proprietary funds are accounted for using the economic resources measurement focus. The Airport is a proprietary component unit and accounts for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The principal operating revenues of the authority are from sources such as airlines, concessions, rental cars, and parking. Investment income, passenger facility charges, federal and state grants, and other revenues not related to the operations of the Airport are nonoperating revenues. Operating expenses include the cost of airport and related facilities maintenance, administrative expenses, and depreciation on capital assets. Interest expense and financing costs are nonoperating expenses.

#### **(c) Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting under which revenues are recognized when earned and expenses are recognized when incurred. Revenues from landing and airfield fees, terminal building, rental building, and leased areas are reported as operating revenues. Transactions, which are capital, financing, or investing related, are reported as nonoperating revenues. Expenses from employee wages and benefits, purchase of services, materials and supplies, and other miscellaneous expenses are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses. Under the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the City of New Orleans has elected not to follow Financial Accounting Standards Board guidance issued subsequent to November 30, 1989.

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**

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Notes to Financial Statements

December 31, 2006 and 2005

**(d) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(e) Accounts Receivable**

An allowance for estimated uncollectible accounts receivable is established at the time information becomes available, which would indicate the uncollectibility of the particular receivable.

**(f) Investments**

Investments are carried at fair value in the financial statements. Unrealized gains and losses on investments are reflected in the statements of revenues, expenses, and changes in net assets.

**(g) Inventory**

The inventory of materials and supplies is valued at lower of cost or market, determined by the first-in, first-out method.

**(h) Capital Assets**

Capital assets are carried at cost. An item is classified as an asset if the initial, individual cost is \$1,000 or greater. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. In situations involving the construction of certain assets financed with the proceeds of tax-exempt borrowings, interest earned on related interest-bearing investments from such proceeds are offset against the related interest costs in determining the amount of interest to be capitalized. No interest amounts were capitalized during 2006 and 2005.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method commencing with the date of acquisition or, in the case of assets constructed, the date placed into service.

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The estimated useful lives by major classification are as follows:

	<b>Estimated useful lives (years)</b>
Air rights	25
Land improvements	10 – 25
Buildings and furnishings	3 – 25
Equipment	3 – 10
Utilities	10 – 25
Heliport	5 – 15

**(i) Due from/Due to the City of New Orleans**

Amounts recorded as due from and due to the City of New Orleans primarily relate to amounts paid by the City on behalf of the Airport. In addition, the City provides certain administrative services to the Airport. The cost of such services was \$1,372,296 and \$1,308,502 for the years ended December 31, 2006 and 2005, respectively, and is recorded in administrative expenses in the statements of revenues, expenses, and changes in net assets.

**(j) Restricted Assets**

Restricted assets include investments required to be maintained for debt service, capital additions and contingencies, operations and maintenance, and escrow under the indentures of the revenue and refunding bonds, as well as investments to be used for the construction of capital improvements. Restricted assets also include receivables related to Passenger Facility Charges and grants.

**(k) Bond Insurance**

In conjunction with bonds issued in 1999, 1997, 1995, and 1993, insurance was purchased which guarantees the payment of bond principal and interest and expires with the final principal and interest payment on the bonds. The insurance costs were capitalized at the dates of issuance and are being amortized over the life of the bonds using the interest method.

**(l) Revenue Recognition**

Landing and airfield fees, terminal building, rental building, and leased areas rentals are recorded as revenues of the year in which earned.

Due to the expiration of the Commercial Airline Lease at December 31, 2004, the Airport continued charging the Airline Transportation Companies in accordance with the expired lease until June 30, 2005. In July and August 2005, the draft lease agreement rates were implemented, while lease negotiations continued. On August 29, 2005, the Airport and the City of New Orleans sustained significant damages due to Hurricane Katrina. The Airport sustained minor damages to its capital assets and as a result did not have to apply the provisions of Governmental Accounting Standards Board No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for*

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*Insurance Recoveries (GASB Statement No. 42).* The major impact to the Airport was related to operations, and no fees were charged to the air carriers for the month of September 2005. As a result of the hurricane, the Airport entered into negotiations with the airline transportation companies in order to determine the maximum amount of fees and charges the Airport would be able to charge to retain the airline transportation companies and provide airline services to the City of New Orleans. In November 2005, the Board adopted the rates, fees and charges resolution whereby the airport transportation companies are charged \$8.00 per enplaned passenger. Landing fees were established at \$1.07 per 1,000 pounds of gross maximum landed weight.

**(m) Passenger Facility Charges**

On June 1, 1993, the Airport began imposing, upon approval of the Federal Aviation Administration (the FAA), a \$3.00 Passenger Facility Charge (PFC) on each passenger enplaned at the Airport. On April 1, 2002, the FAA approved an increase in the amount of this fee to \$4.50. As of December 31, 2006, the Airport is authorized to collect up to \$446,498,690 of PFC revenue of which \$194,369,815 has been collected. PFC revenues are pledged to secure the Series 1999 Revenue bonds, which funded construction of preapproved capital projects and redeemed the 1994 Series PFC Bonds. The estimated expiration date on PFC revenue collection is January 1, 2018.

**(n) Federal Financial Assistance**

The Airport receives financial assistance for costs of construction and improvements to airport facilities through grants from the FAA. The Airport is on the reimbursement basis for funds received for financial assistance. As of December 31, 2006, the Airport received \$1,461,686 from FEMA as reimbursement for repairs and expenses incurred by the Airport as a result of Hurricane Katrina.

**(o) Vacation and Sick Leave**

All full-time classified employees of the Airport hired prior to January 1, 1979 are permitted to accrue a maximum of 90 days of vacation (annual leave) and an unlimited number of days of sick leave (accumulated at a maximum of 24 days per year). Employees hired after December 31, 1978 can accrue a maximum of 45 days annual leave and an unlimited number of days of sick leave (accumulated at a maximum of 24 days per year). Upon termination of employment, an employee is paid for their accrued annual leave based on their current hourly rate of pay and for their accrued sick leave on a formula basis. If termination is the result of retirement, the employee has the option of converting their accrued annual and sick leave to additional pension credits. Annual leave and sick leave liabilities are accrued when incurred.

**(p) Statements of Cash Flows**

For purposes of the statements of cash flows, cash and cash equivalents include unrestricted cash, unrestricted certificates of deposit, and restricted cash.

**(q) Reclassifications**

Certain 2005 balances have been reclassified to conform with the 2006 presentation.

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**(2) Cash and Investments**

Included in the Airport's cash balances are amounts deposited with commercial banks in interest bearing and noninterest bearing demand accounts. The commercial bank balances are entirely insured by federal depository insurance or by collateral held by the financial institution in the Airport's name.

The Airport follows GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB Statement No. 31), which requires the adjustments of the carrying values of investments to fair value, which is based on available market values. The local government investment pool is a "2a-7-like" pool in accordance with GASB Statement No. 31; therefore, it is not presented at fair value but at its actual pooled share price, which approximates fair value. At December 31, 2006 and 2005, the fair value of all securities regardless of balance sheet classifications as cash and cash equivalents or investments was as follows:

	<u>2006</u>	<u>2005</u>
Securities:		
U.S. Treasury and government agency securities	\$ 365,546	990,866
Local government investment pool	34,802,710	13,107,826
Investment in money market funds	<u>93,649,041</u>	<u>77,096,856</u>
Total securities, at fair value	<u>\$ 128,817,297</u>	<u>91,195,548</u>

These securities are held in the following accounts:

	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 3,473,911	8,291,741
Investments	67,461,547	37,043,025
Noncurrent assets:		
Investments	<u>61,355,750</u>	<u>54,152,523</u>
Total cash and investments	132,291,208	99,487,289
Less cash on deposit	<u>(3,473,911)</u>	<u>(8,291,741)</u>
Total securities, at fair value	<u>\$ 128,817,297</u>	<u>91,195,548</u>



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The Airport is authorized to invest in securities as described in its investment policy, in each bond resolution and state statute. As of December 31, 2006 and 2005, the Airport held the following investments as categorized below in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*:

**Investment Maturities at December 31, 2006**

Investment type	Less than 1 year	1 to 5 years	Total
U.S. Treasury and government agency securities	\$ —	365,546	365,546
Local government investment pool	34,802,710	—	34,802,710
Money market funds	93,649,041	—	93,649,041
	<u>\$ 128,451,751</u>	<u>365,546</u>	<u>128,817,297</u>

**Investment Maturities at December 31, 2005**

Investment type	Less than 1 year	1 to 5 Years	Total
U.S. Treasury and government agency securities	\$ —	990,866	990,866
Local government investment pool	13,107,826	—	13,107,826
Money market funds	77,096,856	—	77,096,856
	<u>\$ 90,204,682</u>	<u>990,866</u>	<u>91,195,548</u>

**Interest Rate Risk:** As a means of limiting its exposure to fair value losses arising from rising interest rates, investments are generally held to maturity. The Airport's investments policy requires the investment portfolio to be structured to provide sufficient liquidity to pay obligations as they come due. To the extent possible, investment maturities are matched with known cash needs and anticipated cash flow requirements. Additionally, maturity limitations for investments related to the issuance of debt are outlined in the Bond Resolution relating to the specific bond issue.

**Credit Risk:** The Airport's general investment policy applies the prudent-person rule:

Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. Airport policy limits investments to the highest credit rating category of Standard & Poor's (S&P). Funds can only be invested in money market funds rated AAAM, AAM, or AAAM-G by S&P. In accordance with the Authority's investment policy and bond resolutions, all U.S. government agency securities held in the portfolio are either issued by or explicitly guaranteed by the U.S. government.

**Custodial Credit Risk:** For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Airport will not be able to recover the values of its investments or collateral securities

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that are in the possession of an outside party. All of the Airport's investments are either held in the name of the Airport or held in trust under the Airport's name.

**Concentration of Credit Risk:** The Airport's investments are not subject to a concentration of credit risk.

**(3) Summary of Restricted Assets**

Assets restricted for specific purposes in accordance with bond indenture and other legal restrictions are composed of the following at December 31, 2006 and 2005:

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## Assets

(Continued)

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## (4) Capital Assets

Capital assets include assets acquired with the Airport's own funds as well as those acquired through resources externally restricted for capital acquisition. A summary of changes in capital assets for the years ended December 31, 2006 and 2005 is as follows:

	Balance December 31, 2005	Additions/ transfers during year	Deletions/ transfers during year	Balance December 31, 2006
Capital assets not being depreciated:				
Land	\$ 89,500,561	6,316,044	(11,564,710)	84,251,895
Construction in progress	12,683,386	9,560,354	(3,499,558)	18,744,182
Total capital assets not being depreciated	102,183,947	15,876,398	(15,064,268)	102,996,077
Capital assets being depreciated:				
Air rights	12,289,380	6,205,162	—	18,494,542
Land improvements	319,910,958	2,633,056	(609,591)	321,934,423
Buildings and furnishings	291,497,141	63,044	(763,058)	290,797,127
Equipment	6,268,054	97,636	(12,958)	6,352,732
Utilities	7,786,124	—	—	7,786,124
Heliport	3,066,886	—	—	3,066,886
Total capital assets being depreciated	640,818,543	8,998,898	(1,385,607)	648,431,834
Total capital assets	743,002,490	24,875,296	(16,449,875)	751,427,911
Less accumulated depreciation:				
Air rights	896,090	512,536	—	1,408,626
Land improvements	124,389,677	15,610,658	(342,766)	139,657,569
Buildings and furnishings	169,959,601	14,047,038	(748)	184,005,891
Equipment	4,674,774	475,589	(12,958)	5,137,405
Utilities	3,651,566	258,634	—	3,910,200
Heliport	3,061,969	1,553	—	3,063,522
Total accumulated depreciation	306,633,677	30,906,008	(356,472)	337,183,213
Total capital assets, net	\$ 436,368,813	(6,030,712)	(16,093,403)	414,244,698

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	<u>Balance December 31, 2004</u>	<u>Additions/ transfers during year</u>	<u>Deletions/ transfers during year</u>	<u>Balance December 31, 2005</u>
Capital assets not being depreciated:				
Land	\$ 89,516,789	453,031	(469,259)	89,500,561
Construction in progress	<u>24,483,263</u>	<u>78,633,452</u>	<u>(90,433,329)</u>	<u>12,683,386</u>
Total capital assets not being depreciated	<u>114,000,052</u>	<u>79,086,483</u>	<u>(90,902,588)</u>	<u>102,183,947</u>
Capital assets being depreciated:				
Air rights	10,685,722	1,603,658	—	12,289,380
Land improvements	265,035,299	81,685,049	(26,809,390)	319,910,958
Buildings and furnishings	289,591,748	1,279,794	625,599	291,497,141
Equipment	5,999,594	318,591	(50,131)	6,268,054
Utilities	7,786,124	—	—	7,786,124
Heliport	<u>3,066,886</u>	<u>—</u>	<u>—</u>	<u>3,066,886</u>
Total capital assets being depreciated	<u>582,165,373</u>	<u>84,887,092</u>	<u>(26,233,922)</u>	<u>640,818,543</u>
Total capital assets	<u>696,165,425</u>	<u>163,973,575</u>	<u>(117,136,510)</u>	<u>743,002,490</u>
Less accumulated depreciation:				
Air rights	615,293	280,797	—	896,090
Land improvements	136,560,801	12,735,131	(24,906,255)	124,389,677
Buildings and furnishings	155,365,033	14,593,820	748	169,959,601
Equipment	4,220,253	493,045	(38,524)	4,674,774
Utilities	3,338,548	313,018	—	3,651,566
Heliport	<u>3,059,917</u>	<u>2,052</u>	<u>—</u>	<u>3,061,969</u>
Total accumulated depreciation	<u>303,159,845</u>	<u>28,417,863</u>	<u>(24,944,031)</u>	<u>306,633,677</u>
Total capital assets, net	\$ <u>393,005,580</u>	<u>135,555,712</u>	<u>(92,192,479)</u>	<u>436,368,813</u>

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Construction in progress is composed of the following at December 31, 2006:

Description	Project authorization	Expended to December 31, 2006	Remaining commitments
Security Operations Center	\$ 28,170,190	3,093,160	25,077,030
Transport Center Expansion	2,000,000	307,569	1,692,431
Expansion Concourse "D"	37,933,000	4,209,733	33,723,267
New ARFF Fire Station	11,570,881	1,179,861	10,391,020
Terminal Apron Rehabilitation	7,800,000	1,212,946	6,587,054
Aircraft Loading Bridge	28,914,000	1,904,895	27,009,105
Terminal Improvements Electrical and Mechanical	110,000	101,170	8,830
Terminal HVAC 3 Additional Units	1,700,000	1,694,533	5,467
Upgrade Light Main Terminal	6,000	156	5,844
Terminal Exterior Improvements	11,000,000	53,961	10,946,039
Terminal Interior Improvements	11,000,000	65,015	10,934,985
Strategic Development Plan	4,323,006	2,238,354	2,084,652
Inter-Concourse Connector	2,023	2,023	—
Concourse A-B Security Connector	2,194	2,194	—
Other	2,678,612	2,678,612	—
	<u>\$ 147,209,906</u>	<u>18,744,182</u>	<u>128,465,724</u>

## Land Swap

The City of New Orleans acting through the New Orleans Aviation Board (Board) entered into an Act of Exchange with RMGC, LLC the owner of the Iafrates property, which is adjacent to the Airport on the south side, for certain parcels owned by the Board located on the north side of the Airport. The transaction is a two step process.

The Act of Exchange addressed the first portion of the transaction wherein approximately 5/7 of the Iafrates parcels were exchanged for all of the property owned by the Airport on the north side of the interstate, referred to in the documents as the "32<sup>nd</sup> Street properties." The Board is buying the property in two steps. The first step has taken place in 2006 and the Board is in the process of taking the second and final step which requires some negotiation to resolve outstanding issues including easements, covenants and appraisal reconciliation. In the 2006 swap the Board's property appraised for \$5,800,000 and the RMGC property appraised for \$5,000,000 resulting in an accounting loss of \$800,000, which was recognized in the 2006 Financial Statements of the Airport. The carrying value of the land exchanged was \$11,564,710. The difference of \$5,764,710 between the appraised value of \$5,800,000 and the carrying value was accounted for as air rights. The Airport maintained the air rights for the property that was exchanged.

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**(5) Long-term Debt**

Long-term debt activity for the years ended December 31, 2006 and 2005 was as follows:

<u>Bonds payable</u>	<u>Balance December 31, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2006</u>	<u>Amounts due within one year</u>
Series 1993B Refunding bonds, variable rates, final maturity 2016	\$ 95,885,000	—	(7,235,000)	88,650,000	7,555,000
Series 1993C Refunding bonds, variable rates, final maturity August 3, 2011	1,785,000	—	(235,000)	1,550,000	255,000
Series 1995A Refunding bonds, variable rates, final maturity August 1, 2015	14,985,000	—	(1,090,000)	13,895,000	1,195,000
Series 1997A Refunding bonds, variable rates, final maturity August 5, 2015	19,785,000	—	(1,040,000)	18,745,000	1,075,000
Series 1997B-1 Revenue bonds, with fixed interest rate at 5.45%, final maturity October 1, 2027	2,555,000	—	—	2,555,000	—
Series 1997B-2 Taxable revenue bonds, fixed interest rates (6.45% at December 31, 2004), final maturity October 1, 2027	9,555,000	—	(255,000)	9,300,000	270,000
Series 1999A-1 Revenue refunding bonds 2002), interest rates (5.00% at December 31, 2004), final maturity September 1, 2018	24,060,000	—	(1,405,000)	22,655,000	1,480,000
Series 1999A-2 Revenue refunding bonds, with fixed interest rate at 6.00%, final maturity September 1, 2019	4,565,000	—	—	4,565,000	—
Series 2004A Drawdown bond facility, variable rates, final maturity December 31, 2007	48,227,412	1,357,977	—	49,585,389	—
	221,402,412	1,357,977	(11,260,000)	211,500,389	11,830,000
Less:					
Unamortized loss on advance refunding	(14,546,232)	—	1,374,447	(13,171,785)	—
Unamortized discount on bonds	(445,506)	—	31,480	(414,026)	—
	206,410,674	1,357,977	(9,854,073)	197,914,578	11,830,000

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<b>Bonds payable</b>	<b>Balance December 31, 2005</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31, 2006</b>	<b>Amounts due within one year</b>
Loans payable:					
FEMA	\$ —	10,882,641	—	10,882,641	—
Go Zone	—	13,250,972	—	13,250,972	—
	—	24,133,613	—	24,133,613	—
Other liabilities:					
FEMA Interest Payable	—	157,181	—	157,181	—
	—	157,181	—	157,181	—
	<u>\$ 206,410,674</u>	<u>25,648,771</u>	<u>(9,854,073)</u>	<u>222,205,372</u>	<u>11,830,000</u>
	<b>Balance December 31, 2004</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31, 2005</b>	<b>Amounts due within one year</b>
Series 1993B Refunding bonds, variable rates, final maturity 2016	\$ 102,740,000	—	(6,855,000)	95,885,000	7,235,000
Series 1993C Refunding bonds, variable rates, final maturity August 3, 2011	2,000,000	—	(215,000)	1,785,000	235,000
Series 1995A Refunding bonds, variable rates, final maturity August 1, 2015	15,980,000	—	(995,000)	14,985,000	1,090,000
Series 1997A Refunding bonds, variable rates, final maturity August 5, 2015	20,740,000	—	(955,000)	19,785,000	1,040,000
Series 1997B-1 Revenue bonds, with fixed interest rate at 5.45%, final maturity October 1, 2027	2,555,000	—	—	2,555,000	—
Series 1997B-2 Taxable revenue bonds, fixed interest rates (6.45% at December 31, 2004), final maturity October 1, 2027	9,790,000	—	(235,000)	9,555,000	255,000
Series 1999A-1 Revenue refunding bonds 2002), interest rates (5.00% at December 31, 2004), final maturity September 1, 2018	25,395,000	—	(1,335,000)	24,060,000	1,405,000
Series 1999A-2 Revenue refunding bonds, with fixed interest rate at 6.00%, final maturity September 1, 2019	4,565,000	—	—	4,565,000	—



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	Balance December 31, 2004	Additions	Deductions	Balance December 31, 2005	Amounts due within one year
Series 2004A Drawdown Bond Facility, variable rates, final maturity December 31, 2007	\$ —	48,227,412	—	48,227,412	—
	183,765,000	48,227,412	(10,590,000)	221,402,412	11,260,000
Less:					
Unamortized loss on advance refunding	(15,920,679)	—	1,374,447	(14,546,232)	—
Unamortized discount on bonds	(476,987)	—	31,481	(445,506)	—
	<u>\$ 167,367,334</u>	<u>48,227,412</u>	<u>(9,184,072)</u>	<u>206,410,674</u>	<u>11,260,000</u>

Debt service requirements to maturity for all outstanding bonds and notes are as follows:

	Swap (see note 10)	Interest	Principal	Total
Bonds payable:				
December 31:				
2007	\$ 2,284,366	10,656,582	61,415,389	74,356,337
2008	2,107,988	6,614,201	12,570,000	21,292,189
2009	1,919,708	6,090,855	13,360,000	21,370,563
2010	1,718,777	5,531,572	14,215,000	21,465,349
2011	1,499,947	4,939,205	15,120,000	21,559,152
2012 – 2016	3,367,622	14,687,279	78,505,000	96,559,901
2017 – 2021	—	3,312,834	11,170,000	14,482,834
2002 – 2026	—	1,185,451	4,145,000	5,330,451
2027	—	66,050	1,000,000	1,066,050
	<u>12,898,408</u>	<u>53,084,029</u>	<u>211,500,389</u>	<u>277,482,826</u>
Notes payable:				
December 31:				
2011	—	1,551,843	11,766,039	13,317,882
2012 – 2016	—	—	4,416,991	4,416,991
2017 – 2021	—	—	4,416,991	4,416,991
2022 – 2025	—	—	3,533,592	3,533,592
	<u>—</u>	<u>1,551,843</u>	<u>24,133,613</u>	<u>25,685,456</u>
	<u>\$ 12,898,408</u>	<u>54,635,872</u>	<u>235,634,002</u>	<u>303,168,282</u>

On October 15, 1999, the Airport issued \$31,020,000 and \$4,565,000 in Revenue Refunding Bonds, Series 1999A-1 and Series 1999A-2, respectively. The proceeds of which were used to (i) redeem and refund

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remaining portions of the Series 1994 Revenue bonds, and (ii) provide a portion of the amounts needed to complete the construction of certain projects approved by the FAA. These bonds are secured by a pledge of PFC revenue expected to be collected through January 1, 2018 and by certain other Airport funds, including a portion of the Debt Service Reserve Account.

The Series 1999A-1 and 1999A-2 Revenue Refunding Bonds are subject to optional redemptions on or after September 1, 2004, as defined in the general indenture. The Series 1999A-2 Revenue Refunding Bonds are also subject to mandatory sinking fund redemption on September 1, 2018 in the amount of \$1,685,000. The general indenture requires that the Airport maintain certain specified financial ratios and comply with other covenants.

On June 24, 1997, the Airport issued \$25,510,000 in Refunding bonds, Series 1997A, the proceeds of which were used to repay portions of the Series 1993A Taxable refunding bonds. As defined in the general indenture, the bonds are secured by a pledge of the Airport's revenues subject to prior payment of operation and maintenance expenses. The bonds are also secured by a portion of the Debt Service Reserve Account. The bonds are subject to optional redemptions, as defined in the general indenture. The general indenture requires that the Airport maintains certain specified financial ratios and comply with other covenants.

On October 1, 1997, the Airport issued \$2,555,000 in Revenue bonds, Series 1997B-1, and \$10,945,000 in Taxable Revenue Bonds, Series 1997B-2. The Series 1997B-1 bonds were issued for the purpose of reimbursing the Airport for costs previously paid by the Airport in connection with, or financing the costs of, the Airport's continuing Noise Mitigation and Land Acquisition Program at the Airport, including the purchase of certain noise-impacted properties, the purchase of properties for development purposes, the sound insulation of certain residential properties and the acquisition of certain navigation easements, servitudes and other property rights. The 1997B-2 bonds were issued for the purpose of (i) financing the Airport's Storm Water Drainage Program for apron fueling areas at the Airport, including the provision of trench drains and associated drainage piping to capture water flows from all concourse aprons and (ii) providing a continuing source of funds for financing the projects of the 1997B-1 bonds on an ongoing basis. As defined in the general indenture, the bonds are secured by a pledge of the Airport's revenues subject to prior payment of operation and maintenance expenses. The bonds are also secured by a portion of the Debt Service Reserve Account. The bonds are subject to optional redemptions, as defined in the general indenture. The general indenture requires that the Airport maintains certain specified financial ratios and comply with other customary requirements.

The Series 1993B Refunding bonds were issued on February 12, 1993 in order to advance refund all debt issues previously outstanding. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$32,184,971. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, this difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through August 2016. The refunded bonds had a zero balance at December 31, 2006.

The general indenture under which the Series 1993A-C, Series 1995A, and Series 1997A and B bonds were issued provides for the establishment of restricted accounts for the following purposes: The payment

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of interest and principal on outstanding bonds; the purchase of land, and repairs, replacements, and/or renovations to the Airport; operation and maintenance expenses for which amounts are not otherwise available; and future bond issuance costs. Consequently, the Airport has established the Debt Service Account, the Debt Service Reserve Account, the Renewal and Replacement Account, the Operations and Maintenance Reserve Account, and the Revenue Bond Escrow Account.

The Board approved the Rate Resolution in November 2005, which significantly reduced the amounts charged to the air transportation companies. As a result of the drastic reductions in flight operations and enplanements resulting from Hurricane Katrina, it was not feasible to continue to operate the Airport pursuant to a residual financial agreement. As a result of the reduced operating revenues, the Airport would not be able to meet the debt service coverage ratio of 125% as required under the general revenue bond trust indenture. In November 2006, the Board approved the Rollover Coverage Resolution which allowed the Airport to provide for \$9,000,000 of rollover coverage in the 2005 debt service coverage ratio calculation. The Resolution provides for \$9,000,000 of coverage in 2005, \$15,000,000 in 2006, and \$13,000,000 in 2007. These amounts were determined by the Board through review of the actual 2005 covenant calculation and projected 2006 and 2007 covenant calculations in order for the Airport to specifically comply with the 125% debt service covenant in each of the three years. On November 30, 2006, the Airport completed three wire transfers, in accordance with the Rollover Coverage Resolution, in the amounts of \$9,000,000, \$15,000,000 and \$13,000,000 from the Airport Operating Fund into the Bank of New York (Trustee) 2005, 2006, and 2007 Rollover accounts. The 2005 and 2006 funds were required to remain in the respective account for one business day and then were wired back to the Airport Operating Fund. The 2007 funds remained in the 2007 Rollover account until January 2007 and then were returned to the Airport Operating Fund. As a result of the rollover coverage, the Airport is in compliance with the debt service coverage ratio at December 31, 2006 and at December 31, 2005.

On December 14, 2004, the New Orleans Aviation Board approved the issuance of \$65,000,000 New Orleans Aviation Board Interim Revenue Notes (Passenger Facility Charge Projects) Drawdown Bond Facility, Series 2004A. The 2004 PFC Projects mean collectively the acquisition and construction of 1) Aircraft Loading Bridges; 2) Expansion of Concourse D; and 3) Rehabilitation of Runway 10/28. The 2004A Series is subordinated debt to the New Orleans Aviation Board Revenue Refunding Bonds (Passenger Facility Charge Projects), Series 1999 A-1 and Series 1999 A-2. These bonds are secured by a pledge of PFC Revenue expected to be collected through January 1, 2018. The general indenture requires that the Airport maintain certain specified financial ratios and comply with other covenants. The Airport initiated multiple draw downs on this facility throughout the fiscal year with a balance of \$49,585,389 at December 31, 2006.

The Board was authorized to receive up to a maximum of \$28,000,000 from the FEMA Community Development Loan Program. On June 15, 2006, the Airport received an \$8,112,103 CDL from FEMA with an interest rate of 2.93% for a period of 60 months. On August 25, 2006, the Airport received a \$2,187,816 CDL from FEMA with an interest rate of 3.06% for a period of 60 months. On October 4, 2006, the Airport received a \$582,722 CDL from FEMA with an interest rate of 2.93% for a period of 60 months.

In addition, the Board received approval for participation in the Gulf Tax Credit Bonds Program (Go Zone Tax Credit Bonds) sponsored by the State of Louisiana in an amount not exceeding \$36,000,000. The Airport was approved for \$35,371,990 for an interest free period of 60 months. On August 1, 2006,

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**  
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Notes to Financial Statements

December 31, 2006 and 2005

Hancock Bank as escrow trustee for the State of Louisiana with respect to its GO Zone Tax Credit Bonds Program transferred to the Trustee the amount of \$10,242,550 to be used to pay the August 2, 2006 debt service on the Bonds and related interest rate swap payments. The Hancock Bank transferred an additional \$3,008,422 in debt service between August 2006 and December 2006 which increased the total loan to \$13,250,972 as of December 31, 2006. The Trustee continues to be responsible for making all debt service payments on the bonds. The Hancock Bank will continue to make the appropriate debt service transfers to the Trustee until the balance of the approval is reached, which will be in July of 2008. In August 2007, the Airport resumed transferring to the Trustee the principal portion of the debt service for the 1993B, 1993C, 1995A, and 1997A Refunding Bonds. In October 2007, the Airport resumed transferring to the Trustee the principal portion of the debt service for the 1997B-2 Revenue Bonds. The interest portion of the debt service will continue to be transferred by Hancock Bank to the Trustee.

**(6) Capital Contributions and Transfers**

Capital contributions recorded by the Airport represent amounts received from the federal government to finance the cost of construction of airport facilities.

During the years ended December 31, 2006 and 2005, the FAA contributed approximately \$6,042,248 and \$25,090,350, respectively, to the Airport for various capital projects.

**(7) Pension Plan**

Employees and officers of the Airport are eligible for membership in the Employees' Retirement System of the City of New Orleans (the Plan), a defined benefit contributory retirement plan. A separate financial report on the plan for the year ended December 31, 2006 containing additional information required under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, is available from the City of New Orleans Director of Finance, 2400 Canal Street, Room 342, New Orleans, Louisiana 70119, (504) 826-1985.

The Airport's annual contribution to the Employees' Retirement System is based on the amount determined by the actuary of the Plan, which includes amortization of past service costs over a period of 30 years. The Airport's contribution to the Plan for the years ended December 31, 2006 and 2005 was \$455,998 and \$577,000, respectively.

**(8) Rentals under Operating Leases**

The Airport leases space in its terminal to various airlines, concessionaires, and others. These leases are for varying periods ranging from one to ten years and require the payment of minimum annual rentals. A new lease between the Airport and the airlines (Airline Operating Agreement) was not signed in 2005 due to Hurricane Katrina with a consensus between the Airport and the airlines. The Board implemented the Rate Resolution in agreement with the airlines. Most leases are subject to adjustment upwards or downwards based upon the operational and capital requirements of the Airport. Leases with concessionaires require payment of percentage rent based on sales in excess of stipulated amounts.

In 2001, construction began on a new \$35.0 million Airport parking garage facility (the Facility). The Facility opened for business on October 15, 2003. The Facility was constructed on land leased by a 501(c)3 nonprofit corporation (the Corporation) from the Airport pursuant to a Parking Garage Ground Lease (the

# LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

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## Notes to Financial Statements

December 31, 2006 and 2005

Ground Lease) dated January 1, 2001. The Commencement Date as defined in the Ground Lease went into effect January 1, 2002, and the ground rental term began. In accordance with the Ground Lease, the Corporation is required to design, finance, construct, and operate the Facility. The Facility is being financed by the Corporation with \$44.3 million of tax-exempt bonds. The bonds are not an obligation of the Airport. The initial term of the Ground Lease is ten years with three renewal periods of ten years at the option of the Corporation. During the term of the Ground Lease, the Corporation will pay the Airport \$10,624 a month plus percentage rent of 6% of gross revenues generated from the Facility in excess of \$7.0 million per year plus net cash flow rent, as defined in the Ground Lease. The payment of rent is subject to a minimum annual guarantee payment, as defined in the Ground Lease. The fixed rent shall increase by 3% per annum, effective on the first day of each lease year during the term. The 2006 monthly ground rent was \$11,957.

The following is a schedule by year of aggregate future minimum rentals receivable on noncancelable operating leases as of December 31, 2006:

2007	\$ 2,743,045
2008	2,331,312
2009	3,085,879
2010	2,863,789
2011	1,862,735
2012 - 2022	<u>5,083,074</u>
	<u>\$ 17,969,834</u>

The above amounts do not include contingent rentals which may be received under most of the leases; such contingent rentals, including month-to-month concession agreements, amounted to \$11,206,804 in 2006 and \$5,522,104 in 2005.

### (9) Accrued Expenses

The Airport received an advance of approximately \$6,000,000 and \$1,000,000 for the years ended December 31, 2006 and 2005, respectively, of insurance proceeds for repairs to Airport property due to Hurricane Katrina related damages. The costs for repairs are included in construction in progress and are expensed as the repairs are completed. As of December 31, 2006 the remaining balance is \$5,528,305.

### (10) Commitments and Contingencies

#### (a) Self-Insurance

The Airport is insured for hospitalization and unemployment losses and claims under the City of New Orleans self-insurance program. The Airport pays premiums to the City of New Orleans unemployment self-insurance program, and the Airport and its employees pay premiums to the City of New Orleans hospitalization self-insurance program.

# LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

(A Component Unit of the City of New Orleans)

## Notes to Financial Statements

December 31, 2006 and 2005

**(b) Commitments**

In the normal course of business, there are various commitments and contingent liabilities, such as construction contracts and service agreements, which are not reflected in the accompanying financial statements.

**(c) Claims and Judgments**

There are several pending lawsuits in which the Airport is involved. Based upon management's review and evaluation of such lawsuits and the advice of legal counsel, the Airport believes that the potential claims resulting from such litigation and not covered by insurance would not materially affect the financial statements.

**(d) Federal Financial Assistance**

The Airport participates in a number of federal financial assistance programs. Although the grant programs have been audited through December 31, 2006 in accordance with the Single Audit Act of 1996, these programs are still subject to financial and compliance audits by governmental agencies.

**(11) Interest Rate Swap Agreements**

The Airport has entered into four interest rate swap agreements to reduce the impact of changes in interest rates on its Series 1993B, 1993C, 1995A, and 1997A Variable-Rate Refunding Bonds (see note 5). As of December 31, 2006, \$122,840,000 in outstanding bonds was recorded as a liability in the financial statements related to these Series.

**Objective of the interest rate swaps.** As a means of lowering its borrowing costs, when compared against fixed-rate bonds, the Airport entered into four interest rate swap agreements in connection with its 1993B, 1993C, 1995A, and 1997A Variable-Rate Refunding Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 5.49%, 5.34%, 6.14%, and 6.50% for the 1993B, 1993C, 1995A, and 1997A issues, respectively.

**Terms.** All four swap agreements are part of a Master Swap Agreement dated January 4, 1993. The swap agreements, having notional amounts of \$88,650,000, \$1,550,000, \$13,895,000, and \$18,745,000 for the 1993B, 1993C, 1995A, and 1997A issues, respectively, terminate in August of 2016, 2011, 2015 and 2015, respectively. The respective swap's notional amount matches the principal amount of the respective variable-rate bonds. Under the swap, the Airport pays the counterparty, AIG, fixed payments of 5.49%, 5.34%, 6.14%, and 6.50% for the 1993B, 1993C, 1995A, and 1997A issues, respectively, and receives a variable payment computed monthly by the swap counterparty. Conversely, the bond's variable-rate coupons are based on a floating rate market Index.

**Fair value.** The fair value of these swap agreements as of December 31, 2006 is a liability of \$12.2 million, which is not recorded in the financial statements. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**

(A Component Unit of the City of New Orleans)

Notes to Financial Statements

December 31, 2006 and 2005

**Credit risk.** As of December 31, 2006, the Airport was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Airport would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's Investors Service as of December 31, 2006.

**Termination risk.** The Airport or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Airport if the swap guarantor's credit quality rating is withdrawn, suspended, or reduced below "A3" as issued by Moody's Investors Service or below "A-" as issued by S&P's Rating Services. If the swap is terminated, the variable-rate bond would no longer carry the synthetic interest rate provided by the swap. Also, if at the time of termination the swap has a negative fair value, the Airport would be liable to the counterparty for a payment equal to the swap's fair value. If at the time of termination the swap has a positive fair value the Airport would receive a cash payment.

On November 20, 2003, the Airport entered into a Reduced Variance® interest rate swap agreement with Rice Financial Products Company (RFPC) with a notional amount of \$81,250,000.

**Objective of the interest rate swap.** As a means of lowering the costs on its outstanding fixed rate obligations, the Airport entered into a subordinate Reduced Variance interest rate swap agreement in connection with its 1993B, 1993C, 1995A, and 1997A synthetically created Fixed-Rate Refunding Bonds and its 1997B-1 and 1997B-2 Fixed-Rate Revenue Bonds. The intention of the swap was to effectively change the Airport's synthetically created or actual fixed interest rates to synthetically created variable rates.

**Terms.** The swap agreement terminates in August 2016, and the swap's notional amount is one-half of the fixed-rate bonds. Under the swap, the Airport pays the counterparty, RFPC, a variable payment computed monthly, based on the fixed rate plus an adjustment factor, and receives a fixed payment of 6.25%. The adjustment factor is computed monthly by the Airport and is based on the BMA Index and LIBOR.

**Fair value.** The fair value of these swap agreements as of December 31, 2006 is a liability of \$2.2 million, which is not recorded in the financial statements. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

**Termination risk.** The Airport or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap must be terminated by the Airport if the swap guarantors' credit quality rating is withdrawn, suspended, or reduced below "A3" as issued by Moody's Investors Service or below "A-" as issued by Standard and Poor's Rating Services. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Airport would be liable to the counterparty for a payment equal to the swap's fair value. If at the time of termination the swap has a positive fair value, the Airport would receive a cash payment.

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**

(A Component Unit of the City of New Orleans)

Notes to Financial Statements

December 31, 2006 and 2005

**Credit risk.** As of December 31, 2006, the Airport was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value.

A standby bond purchase agreement is also in effect over the life of the bonds whereby if the remarketing agent is unable to remarket these variable rate bonds, there is a liquidity provider that agrees to purchase the bonds at the principal amount plus interest. If the liquidity provider purchases the bonds, the interest rate would be the prime rate or the prime rate plus 2% (if the bonds are held by the liquidity provider in excess of one year) not to exceed the maximum permitted by law, or 25%.

**(12) Subsequent Events**

***Bonds***

On November 20, 2007, the New Orleans Aviation Board issued in its own name for the benefit of the City of New Orleans the following tax exempt obligations: The \$65,530,000 New Orleans Aviation Board Revenue Bonds (Passenger Facility Charge Projects) Series 2007A and the \$22,840,000 New Orleans Aviation Board Revenue Refunding Bonds (Passenger Facility Charge Projects) Series 2007B.

The proceeds of the Series 2007A Bonds shall be used to 1) pay the entire outstanding balance of bond anticipation notes previously issued by the Board to pay the bond financed costs of the rehabilitation of Runway 10/28 at the Airport, 2) provide an additional \$10,000,000 to pay the costs of acquiring, constructing and installing approximately 17 aircraft loading bridges at the Airport, 3) provide a debt service reserve fund for such bonds, 4) pay the costs of credit enhancement, and 5) pay the costs of issuance incurred in connection with such bonds.

The proceeds of the Series 2007B Bonds shall be used to 1) refinance the \$35,585,000 original principal amount New Orleans Aviation Board Revenue Refunding Bonds Series 1999 A-1 and Series 1999 A-2, 2) provide a debt service reserve fund for such bonds, 3) pay the costs of credit enhancement, 4) pay the costs of issuance incurred in connection with such bonds.



**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**  
(A Component Unit of the City of New Orleans)

**Schedule 1**

Supplemental Schedule of Investments

Year ended December 31, 2006

Description	Year acquired	Maturity date	Par value	Fair value
Unrestricted investments:				
Special receipts:				
One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	\$ 14,134,104	14,134,104
PFC reimbursement:				
One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	2,082,529	2,082,529
NOAB Reserve:				
One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	5,208,207	5,208,207
FNMA:				
JP Morgan	1993	1/25/2008	177,245	158,837
City of New Orleans:				
LAMP	2003	N/A	34,802,710	34,802,710
Total unrestricted investments			<u>56,404,795</u>	<u>56,386,387</u>
Restricted investments:				
Debt service fund:				
One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	<u>2,920,623</u>	<u>2,920,623</u>
			<u>2,920,623</u>	<u>2,920,623</u>
Debt service reserve fund:				
One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	7,887,111	7,887,111
FNMA:				
JP Morgan	1993	1/25/2008	<u>230,666</u>	<u>206,709</u>
			<u>8,117,777</u>	<u>8,093,820</u>
Renewal and replacement:				
One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	<u>2,000,000</u>	<u>2,000,000</u>
Operations and maintenance Reserve fund:				
One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	<u>8,269,925</u>	<u>8,269,925</u>
Redemption fund:				
One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	<u>1,227,439</u>	<u>1,227,439</u>
Receipts fund:				
One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	<u>169,263</u>	<u>169,263</u>
Imposed only - construction:				
One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	<u>946,740</u>	<u>946,740</u>

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**  
 (A Component Unit of the City of New Orleans)

Supplemental Schedule of Investments

Year ended December 31, 2006

<u>Description</u>	<u>Year acquired</u>	<u>Maturity date</u>	<u>Par value</u>	<u>Fair value</u>
Time reimbursement:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	\$ 13,655,837	13,655,837
Project account:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	1,379,641	1,379,641
PFC restricted:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	20,767,618	20,767,618
Cost of issuance:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	2	2
Rollover account:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	13,000,002	13,000,002
Total restricted investments			72,454,867	72,430,910
Total			\$ 128,859,662	128,817,297

See accompanying independent auditors' report.

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**  
(A Component Unit of the City of New Orleans)

Supplemental Schedule of Operating Revenues and Expenses by Area of Activity

Year ended December 31, 2006

	<b>Landing area</b>	<b>Terminal buildings and area</b>	<b>Ground transportation</b>	<b>Total</b>
Operating revenues				
Direct expenses	\$ 5,310,633	43,889,655	2,152,426	51,352,714
	1,633,553	11,223,946	1,840,803	14,698,302
Operating revenues, less direct expenses	3,677,080	32,665,709	311,623	36,654,412
Depreciation of area assets	16,124,747	12,394,985	1,075,372	29,595,104
Operating revenues, less direct expenses and depreciation	\$ (12,447,667)	20,270,724	(763,749)	7,059,308
Other operating expenses:				
Depreciation of general assets				1,310,904
Administrative				22,701,535
General maintenance				—
Utility building expenses				—
Hurricane Katrina				(7,587)
Total other operating expenses				24,004,852
Recoveries from business interruption insurance				—
Operating loss				\$ (16,945,544)

See accompanying independent auditors' report.

## Schedule 3

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**  
(A Component Unit of the City of New Orleans)

Supplemental Schedule of Historical Debt Service Coverage Ratio as Required under  
the General Revenue Bond Trust Indenture Dated February 16, 1993

Year ended December 31, 2006

(Unaudited)

Revenues:	
Airline rentals and landing fees	\$ 29,122,953
Other operating revenues	22,229,762
Nonoperating revenues	2,781,033
Rollover coverage	15,000,000
Total revenues	69,133,748
Operation and maintenance reserve fund requirement	(616,509)
Operation and maintenance expenses	37,936,997
Net revenues	\$ 31,813,260
Debt service fund requirement:	
Principal payments	\$ 10,058,750
Interest expense	8,041,812
Total debt service fund requirement	\$ 18,100,562
Historical debt service coverage ratio	1.76

See accompanying independent auditors' report.

**(1) Basis of Accounting**

The accompanying supplemental schedule has been prepared in accordance with Section 205 of the General Revenue Bond Trust Indenture dated February 16, 1993. The supplemental schedule excludes certain revenues and expenses as defined in the trust indenture. The exclusions consist mainly of revenues and expenses (including depreciation) related to passenger facility charges and the debt service relating to bonds payable secured by passenger facility charges.

**(2) Rollover Coverage**

The Board approved the Rollover Coverage Resolution on November 30, 2006 which allowed the Airport to apply \$15,000,000 of rollover coverage for the December 31, 2006 debt service coverage ratio calculation. The operating funds were transferred to the NOAB Rollover Account 2006 held by The Bank of New York on November 30, 2006 and remained for one business day in accordance with the Rollover Coverage Resolution.



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**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

New Orleans Aviation Board  
Louis Armstrong New Orleans International Airport:

We have audited the financial statements of Louis Armstrong New Orleans International Airport (the Airport) as of and for the year ended December 31, 2006, and have issued our report thereon dated December 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Airport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be a significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The



results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as item 06-01.

This report is intended solely for the information and use of the board of directors, management, the legislative auditor of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

New Orleans, Louisiana  
December 14, 2007



## CITY OF NEW ORLEANS

### Schedule of Findings and Responses

#### Section 2 – Basic Financial Statements Findings and Responses

Year ended December 31, 2006

<b>No. 06-01</b>	<b>Legislative Auditor Deadline</b>
<i>Criteria</i>	Under Louisiana Statute, the Airport is required to have an annual audit of its financial statements prepared in accordance with U.S. generally accepted accounting principles and to complete the audit and file it with the Legislative Auditor of the State of Louisiana by June 30 of each year.
<i>Condition</i>	The Airport did not meet the deadline for reporting to the State of Louisiana. The Airports' financial statements are issued at the same time as the City of New Orleans' financial statements. The City does not have adequate policies, procedures, and related internal controls to prepare accurate and complete financial statements in accordance with U.S. generally accepted accounting principles
<i>Context</i>	After the storm, the Airport received a one year extension from the Legislative Auditor to file its fiscal year 2005 audited financial statements. However, the Airport did not meet this deadline and filed its financial statements in July 2007. As a result the audit for fiscal year 2006 did not commence until after the fiscal year 2005 financial statement audit was filed. As the Airport is a proprietary component unit of the City of New Orleans, the audits are issued at the same time
<i>Cause</i>	The City does not have an appropriate infrastructure to prepare accurate and complete financial statements in a timely manner. The fiscal year 2006 financial reporting process was impacted by the storm and the layoffs of City employees. As the Airport is a proprietary component unit of the City of New Orleans, the audits are issued at the same time.
<i>Effect</i>	The Airport did not comply with state statute.
<i>Recommendation</i>	The City should evaluate its accounting and financial reporting policies, procedures, controls and resources to ensure its financial statements are submitted to the Legislative Auditor in accordance with the requirements of the state statute.
<i>Views of Responsible Officials and Planned Corrective Action Plan</i>	During the 2005 1 <sup>st</sup> Extraordinary Session, the Louisiana State Legislature amended and reenacted R.S. 24:513(A)(5)(a) and 514(E) and (F) and enacted R.S. 24:513.4, relative to audit reports and financial statements of certain entities, and to provide for an extension of time relative to the completion of audit reports and financial statements in the event of certain disasters or emergencies. The City has had regular communication with the Louisiana State Legislative Auditor to keep them abreast of the audit progress.
<i>Contact Person</i>	Reginald Zeno, Director of Finance



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**Independent Auditors' Report on Compliance with  
Requirements Applicable to the Passenger Facility Charge  
Program, on Internal Control over Compliance, and on the  
Schedule of Revenues and Expenditures of Passenger Facility Charges**

New Orleans Aviation Board  
Louis Armstrong New Orleans International Airport:

*Compliance*

We have audited the compliance of Louis Armstrong New Orleans International Airport (the Airport), a component unit of the City of New Orleans, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended December 31, 2006. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

In our opinion, the Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2006.

*Internal Control over Compliance*

The management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Airport's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.





A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the Guide on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer the passenger facility charge program such that there is more than a remote likelihood that noncompliance with the compliance requirement of the Guide that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with the compliance requirement of the Guide will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

*Schedule of Revenues and Expenditures of Passenger Facility Charges*

We have audited the basic financial statements of the Airport as of and for the year ended December 31, 2006, and have issued our report thereon dated December 14, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of revenues and expenditures of passenger facility charges is presented for the purposes of additional analysis as specified in the Guide and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the New Orleans Aviation Board, management, the Louisiana Legislative Auditor, and the Federal Aviation Administration, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

New Orleans, Louisiana  
December 14, 2007

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

Schedule of Revenues and Expenditures of Passenger Facility Charges

Year ended December 31, 2006

	Program total December 31, 2005	Quarter 1 January - March 2006	Quarter 2 April - June 2006	Quarter 3 July - September 2006	Quarter 4 October - December 2006	Quarters 1-4 January - December 2006	Program total December 31, 2006
<b>Revenues:</b>							
Collections	\$ 169,264,244	2,341,058	3,585,146	3,463,555	3,406,467	12,796,226	182,060,470
Interest	10,817,718	383,448	457,819	399,105	291,255	1,491,627	12,309,345
<b>Total revenues</b>	<b>180,081,962</b>	<b>2,724,506</b>	<b>4,042,965</b>	<b>3,862,660</b>	<b>3,697,722</b>	<b>14,287,853</b>	<b>194,369,815</b>
<b>Expenditures:</b>							
<b>Application 02-05:</b>							
Project 1 - ARFF Perimeter Road, Stage I (1)	1,185,857	17,950	1,882	44,953	858	65,643	1,251,500
Project 2 - North GA Apron, Stage 1	5,247,277	38,442	4,031	96,125	1,837	140,435	5,387,712
Project 3 - Airfield Lighting Control System (1)	506,428	7,448	781	18,626	356	27,211	533,639
Project 4 - Rehab Runways and Taxiways (1)	2,337,637	6,793	712	44,420	325	52,250	2,389,887
Project 5 - Update Airfield Guidance Signs (1)	88,643	1,288	135	3,222	62	4,707	93,350
Project 8 - East Cargo Apron, Stage I	2,064,104	19,110	2,004	47,908	913	69,935	2,134,039
Project 9 - Fire Code Compliance Prog., Ph II, Stage II	3,542,976	54,400	5,704	136,148	2,599	198,851	3,741,827
Project 10 - Asbestos Removal Program	2,991,051	43,634	4,575	109,112	2,085	159,406	3,150,457
Project 11 - West Terminal Utilities Expansion (1)	5,925,904	90,408	9,479	226,076	4,320	330,283	6,256,187
Project 12 - Concourse D Reconstruction (1)	14,158,705	236,817	24,830	530,799	11,316	803,762	14,962,467
Project 13 - West Terminals Expansion (1)	18,874,255	272,392	28,560	715,108	13,016	1,029,076	19,903,331
Project 14 - ARFF Perimeter Road, Stage II (1)	656,947	—	—	—	—	—	656,947
Project 15 - ARFF Perimeter Road, Stage III (1)	896,580	—	—	—	—	—	896,580
Project 18 - East/West Taxiway (VFR RW) (1)	4,978,708	42,770	4,484	107,044	2,044	156,342	5,135,050
Project 20 - North GA Access Road	977,586	14,923	1,565	37,138	713	54,339	1,031,925
Project 22 - East Air Cargo Access Road	1,941,684	25,391	2,662	63,396	1,213	92,662	2,034,346
Project 23 - Terminal Improvements	4,908,680	—	—	—	—	—	4,908,680
Project 25 - Upper Level Roadway Canopy	5,332,641	—	—	—	(770)	(770)	5,331,871
<b>Total Application - 02-05</b>	<b>76,635,663</b>	<b>871,766</b>	<b>91,404</b>	<b>2,180,075</b>	<b>40,887</b>	<b>3,184,132</b>	<b>79,819,795</b>
<b>Application 02-06:</b>							
Project 26 - Aircraft Loading Bridges	1,495,142	10,288	123,836	45,547	153,696	335,387	1,830,529
Project 27 - Airfield Lighting Control Vault Alternative Power Source (2)	588,086	—	56,341	31,359	(87,700)	—	588,086
Project 29 - Airport Trench Drains (2)	1,886,917	—	—	—	—	—	1,886,917
Project 31 - Concourse C Reconstruction (2)	23,689,436	—	—	—	—	—	23,689,436
Project 32 - Environmental Impact Study for New Air Carrier Runway (2)	736,632	—	—	—	—	—	736,632
Project 33 - Expansion of Concourse D (2)	3,798,140	2,550	—	36,572	—	39,122	3,837,262
Project 35 - New Aircraft Rescue and Fire Fighting (ARFF) Station (2)	204,419	19,612	37,217	13,839	34,778	105,446	309,865
Project 36 - Rehabilitate Taxiway 1/19 (2)	4,113,407	58,837	402,941	30,329	(358,190)	133,917	4,247,324
Project 37 - Rehabilitate Taxiway Sierra (2)	1,335,335	—	—	—	70,206	70,206	1,405,541
Project 38 - Rehabilitate Runway 10/28 (2)	1,356,842	551,415	758,367	1,000,615	967,685	3,278,082	4,634,924
Project 39 - Rehabilitate Rotating Beacon (2)	348,560	—	—	—	—	—	348,560
Project 40 - South Lafon Airport Land Purchase	5,062,117	—	—	—	—	—	5,062,117
Project 41 - Terminal Apron Rehabilitation (2)	938,604	—	38,402	229	—	38,631	997,235
Project 42 - Terminal HVAC Rehabilitation	1,278,665	—	—	—	—	—	1,278,665
Project 43 - West Air Cargo Complex Land Acquisition Program	1,045,643	2,015	2,586	—	—	4,601	1,050,244
<b>Total Application - 02-06</b>	<b>47,917,945</b>	<b>644,717</b>	<b>1,421,710</b>	<b>1,158,490</b>	<b>280,475</b>	<b>4,005,392</b>	<b>51,923,337</b>

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**

**Schedule of Revenues and Expenditures of Passenger Facility Charges**

Year ended December 31, 2006

	Program total December 31, 2005	Quarter 1 January - March 2006	Quarter 2 April - June 2006	Quarter 3 July - September 2006	Quarter 4 October - December 2006	Quarters 1-4 January - December 2006	Program total December 31, 2006
\$							
Application 04-07:							
Project 44 - Airport Interior Signage	—	—	1,298,209	—	—	1,298,209	1,298,209
Project 46 - Concourse C Checkpoint Expansion	—	—	1,230,667	—	—	1,230,667	1,230,667
Project 47 - Construct Connector Taxiway - Taxiway Uniform	4,416,662	—	—	—	234,356	234,356	4,651,018
Project 48 - Construct Holding Bay - Runway End 18	1,014,252	—	—	—	53,550	53,550	1,067,802
Project 49 - Exterior Terminals Renovations - Lower Roadway	—	—	5,011,566	—	(16,566)	4,995,000	4,995,000
Project 50 - FLS Facility	8,083,512	—	67,873	—	(67,873)	—	8,083,512
Project 51 - Gate Utilization Study	—	—	455,662	—	—	455,662	455,662
Project 52 - Terminal HVAC Rehabilitation - Phase II	—	—	2,101,018	—	—	2,101,018	2,101,018
Project 53 - Terminal Pedestrian Access Enhancements	606	—	1,381,099	—	—	1,381,099	1,381,705
Project 54 - TSA - Related Terminal Modification and Airline Relocations	2,049	553	5,916,207	—	—	5,916,760	5,918,809
Project 55 - Airport Master Plan	264,015	57,967	17,298	381,794	7,690	464,749	728,764
Project 57 - Part 1542 Security System	176,937	308,358	597,541	170,198	382,597	1,558,694	1,735,631
Project 58 - Replace/Repair High Mast Lighting	66,426	90,499	171,073	181,179	(509,177)	(66,426)	—
Project 59 - Residential Sound Insulation Program/Land Acquisition	1,762,271	96,192	(462,054)	(47,990)	(21,130)	(434,982)	1,327,289
Project 60 - Terminal Apron Expansion	136,192	—	—	—	(136,192)	—	—
Project 61 - Terminals HVAC Rehabilitation - Phase III	438,528	57,831	28,682	932,083	(809,124)	209,472	648,000
Project 62 - Terminal Interior and Exterior Improvements	33,421	—	2,085,728	1,406	3,154	2,090,288	2,123,709
Project 63 - Transportation Center Expansion	169,476	923	—	2,601	(173,000)	(169,476)	—
Total Application - 04-07	16,564,347	812,323	19,900,569	1,621,271	(1,151,715)	21,182,448	37,746,795
Total Expenditures	141,117,955	2,328,806	21,413,683	4,959,836	(330,353)	28,371,972	169,489,927
PPC revenues in excess (under) of expenditures	\$ 38,964,007	395,700	(17,370,718)	(1,137,176)	4,028,075	(14,084,119)	24,879,888

See accompanying notes to schedule of revenues and expenditures of passenger facility charges.

## **LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**

### **Note to Schedule of Revenues and Expenditures of Passenger Facility Charges**

**Year ended December 31, 2006**

#### **(1) Schedule of Revenues and Expenditures of Passenger Facility Charges**

The accompanying Schedule of Revenues and Expenditures of Passenger Facility Charges (PFC) presents the revenues received from the PFCs and expenditures incurred on approved projects. The Schedule has been prepared on the cash basis of accounting under which revenues are recognized when received and expenses are recognized when paid.

PFCs collected represent cash collected through the end of the month subsequent to the quarter-end as reported to the Federal Aviation Administration (FAA) in accordance with 14 CFR Part 158. The interest earned represents the actual interest collected and accrued on the unexpended PFCs during the periods reported.

The approved collection level for the 10 projects denoted by (1) was increased by the FAA from \$3.00 per enplaned passenger to \$4.50 per enplaned passenger, effective April 1, 2002, upon the Airport's submission of Application 02-05 in order to amend the collection level for projects within the PFC program. The collection level for the other projects within Application 02-05 remained at \$3.00 per enplaned passenger.

The approved collection level for the 11 projects denoted by (2) was increased by the FAA to \$4.50 per enplaned passenger, effective April 1, 2002, upon the Airport's submission of Application 02-06. The collection level for the other projects was approved by the FAA at \$3.00 per enplaned passenger, effective April 1, 2002.

# **LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**

## Schedule of Findings and Questioned Costs

Year ended December 31, 2006

### **Passenger Facility Charges Summary**

1. Type of report issued on Passenger Facility Charges (PFC) financial statements	Unqualified	
2. Type of report issued on PFC compliance	Unqualified	
	<u>Yes</u>	<u>No</u>
3. Quarterly Revenue and Disbursements reconcile with submitted quarterly reports	X	
4. PFC Revenue and Interest is accurately reported on FASS Form 5100-127	X	
5. The Public Agency maintains a separate financial accounting record for each application	X	
6. Funds disbursed were for PFC eligible items as identified in the FAA Decision to pay only for the allowable costs of the projects	X	
7. Monthly carrier receipts were reconciled with quarterly carrier reports	X	
8. PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds	X	
9. Serving carriers were notified of PFC program actions/changes approved by the FAA	X	
10. Quarterly Reports were transmitted (or available via website) to remitting carriers	X	
11. The Public Agency is in compliance with Assurances 5, 6, 7, and 8	X	
12. Project administration is carried out in accordance with Assurance 10	X	
13. For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence	X	

**LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT**

**Schedule of Prior Year Findings and Questioned Costs**

**Year ended December 31, 2006**

*None.*